

ECONOMIC OVERVIEW

Regional Perspective

City serves as the economic and cultural center for the San Joaquin Valley

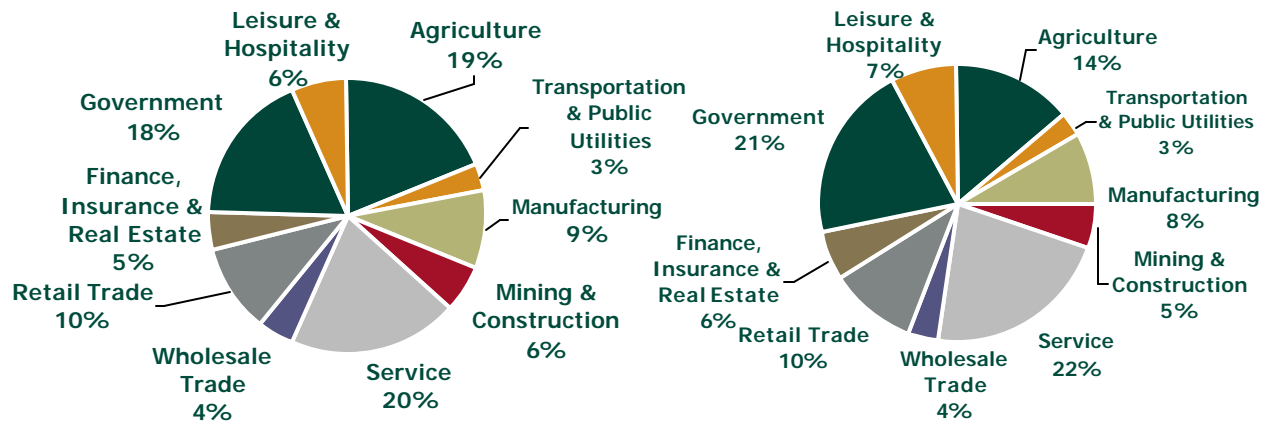
- City is at the heart of a growing metropolitan area strategically located in the center of California with nearly one million residents.
- While agriculture remains the primary industry (16 percent of jobs), Fresno's economy continues to diversify, reflecting advantageous location and attractive cost of living.
- City has land area of 106 square miles.
- Fresno is the 6th largest city in California by population.
- Metropolitan region is the 2nd fastest growing for new jobs in the State, 8th in the nation.
- Regional Jobs Initiative expected to add 30,000 net jobs by 2009.
- City was recently ranked as the 4th best medium metropolitan area to do business in America by *Inc. Magazine*.



Recent Economic Developments

City continues to expand and develop, attracting corporate and government investment

1990 vs. 2002 Estimated Number of Workers by Industry⁽¹⁾



- In calendar year 2003 building permits for new construction and remodels exceeded \$590 million in value
 - In previous decade, average annual value was less than \$400 million
- Major Construction Boom in Downtown Fresno has created 4,230 jobs
 - New ballpark opened in 2002
 - \$250 million Regional Medical Center to be complete in Fall 2004
 - \$120 million Federal Courthouse to be complete in 2004
 - \$18 million renovation of Guarantee Building for IRS and INS
 - \$48 million, 11-story office building and parking garage for IRS & Caltrans
 - \$35 million, 6-story office building and parking garage for IRS



Baseball Stadium



Federal Courthouse

- Roeding Business Park will produce 20,000 jobs
 - ▶ \$450,000 in Federal funding
 - ▶ \$4.5 million low interest loan from the CIEDB
 - ▶ \$1.5 million in funding from the City's general fund
 - ▶ Completed park will produce over 20,000 jobs
- Regional Jobs Initiative
 - ▶ Focus on 8 different industry clusters
 - ▶ Create 30,000 net new jobs within five years, at an average salary of \$29,500
 - ▶ Will generate an annual economic impact of over \$885 million
- Fresno Yosemite International Airport — expansion completed
 - ▶ Recent FAA grant of \$13 million for security and air cargo terminal
 - ▶ Evergreen Air Cargo in first phase of developing California / Far East Cargo Hub
- Save Mart Arena at CSU offers a a state of the art performance venue
 - ▶ 450,000 sq. ft. facility with luxury suites
 - ▶ Privately financed and privately operated
- Convention Center management privatized
 - ▶ City expects savings of \$6 million over five years
 - ▶ Regionalization of marketing by SMG will maximize capture of regional entertainment expenditures



IRS Building



Fresno Regional Medical Center

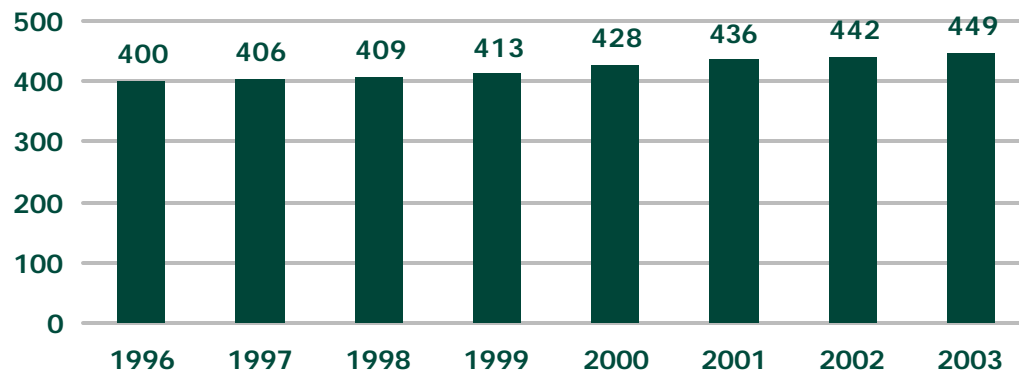


Save Mart Center

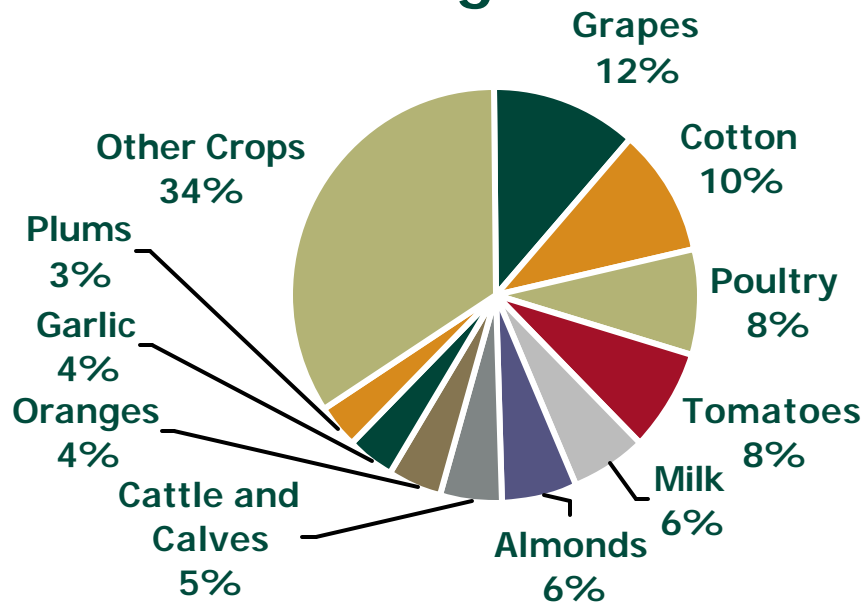
City is poised for steady, manageable long-term growth

Population in 000's

Population Growth



Diversified Agricultural Base



- City's economy continues to grow at a steady pace
- Agricultural base remains robust; growers continue to expand into more lucrative products
- Major private and public investment in downtown Fresno
- Strategic location, low business costs and affordable housing appeals to investors from major metropolitan areas
- Expectation of continued commercial and industrial development over the long-term

Principal Employers

Employer	Industry	Employees
Community Medical Centers	Healthcare	4,818
St. Agnes Medical Center	Healthcare	2,524
Kaiser Permanente	Healthcare	1,852
Pelco	Video Security Systems	1,425
Gottschalks	Retail	1,294
SBC	Telecommunications	1,100
Zacky Farms, LLC	Agriculture	1,041
Sun-Maid Growers of California	Agriculture	600
The Fresno Bee	Newspaper/Media	585
Sunrise Medical	Healthcare	413

FINANCIAL OPERATIONS

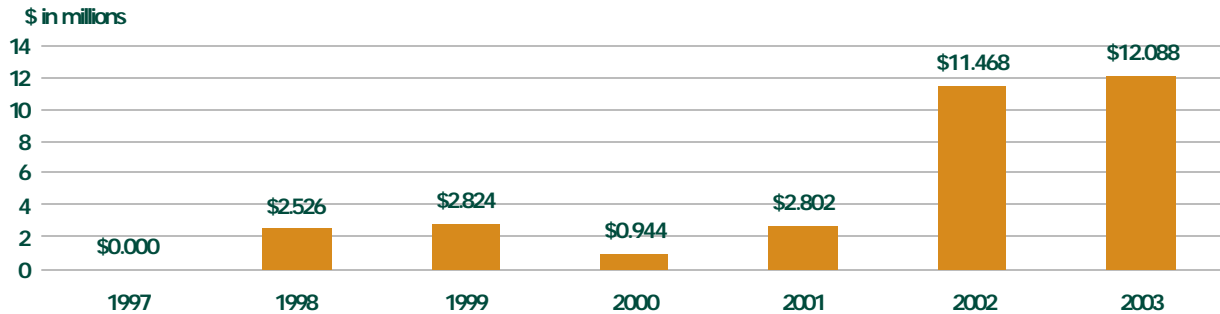
City's FY 2004-2005 Financial Outlook

- City recently received an overall upgrade to our Credit Rating: AA-, A1, AA-
 - The key components were the City of Fresno economic outlook, financial overview, and debt capacity
 - The agencies found that Fresno has: 1) Positive Economic Outlook 2) Stable Financial Position, and 3) Moderate Debt Levels (not excessive)
 - They noted Fresno's sound financial management, the improvement in the City's reserve position, and moderate, not excessive, debt levels

Historical Reserves & Fund Balances

City's Cash Balances have continued to grow

Historical General Fund Cash Balances



Historical Unreserved Fund Balances (1)



Status of Employees Contracts

* *Negotiations are currently in process.*

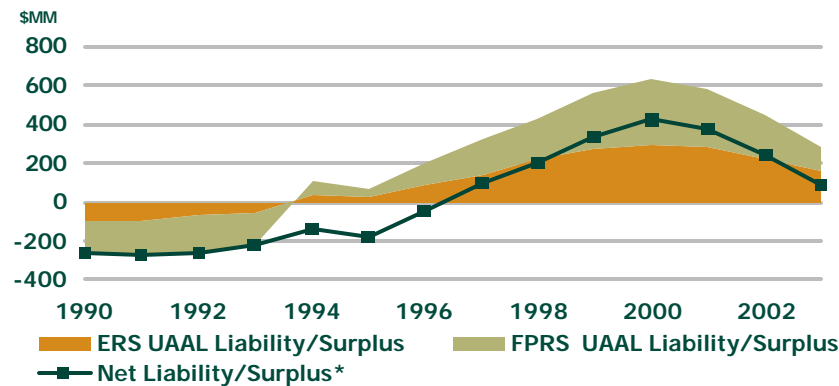
Union/Association	# of Employees	Expires
International Association of Firefighters, Local 753/Units 05	243	June 30, 2003*
International Association of Fire Fighters, Local 753/Unit 10	8	June 30, 2003*
I.U.O.E. Stationary Engineers, Local 39/Unit 01	750	June 30, 2004
Fresno City Employee Association/Unit 03	870	June 30, 2004
City of Fresno Management Employees Association/Unit 14	65	June 30, 2004
IBEW, Local Union 100/Unit 07	39	June 30, 2004
Amalgamated Transit Union, Division 1027/Unit 06	216	June 30, 2004
Fresno Police Officers Association Police Management/Unit 09	32	June 30, 2004
City of Fresno Professional Employees Association/Unit 13	289	June 30, 2004
Fresno Airport Peace Officers/Firefighters Association/Unit 11	12	June 30, 2005
Fresno Police Officers Association/Unit 04	679	June 30, 2006

Source: City of Fresno Labor Relations Division.

- Recently negotiated (FCEA / FPOA) contracts contain 0% increase for first year, and City expects 0% increase for first year of all new contracts
- New contracts contain 3rd year COLA reversion tied to growth in General Fund Revenue

Pension Funding Status*City's Pension Systems are Well-Funded*

- City maintains two retirement systems for its employees which are administered by the City of Fresno Retirement Board
 - Fire & Police Retirement System ("FPRS") has 1,738 members (2 tiers)
 - Employees Retirement System has 3,475 members

Systems Funding History**Fire & Police Retirement System**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability Entry Age (b)	(Prefunded) Unfunded AAL (b-a)	Funded Ratio (a/b)
6/30/1999	\$779,518	\$501,273	(\$278,245)	155.5%
6/30/2000	852,444	522,798	(329,646)	163.1
6/30/2001	859,123	562,131	(296,992)	152.8
6/30/2002	814,700	590,900	(223,800)	137.9
6/30/2003	749,505	617,879	(131,626)	121.3

Employees Retirement System

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (b)	Unfunded (Prefunded) (b-a)	Funded Ratio (a/b)
6/30/1999	\$702,481	\$426,538	(\$275,943)	164.7%
6/30/2000	770,649	471,207	(299,442)	163.5
6/30/2001	781,831	500,586	(281,245)	156.2
6/30/2002	748,762	529,805	(218,957)	141.3
6/30/2003	698,885	545,687	(153,198)	128.1

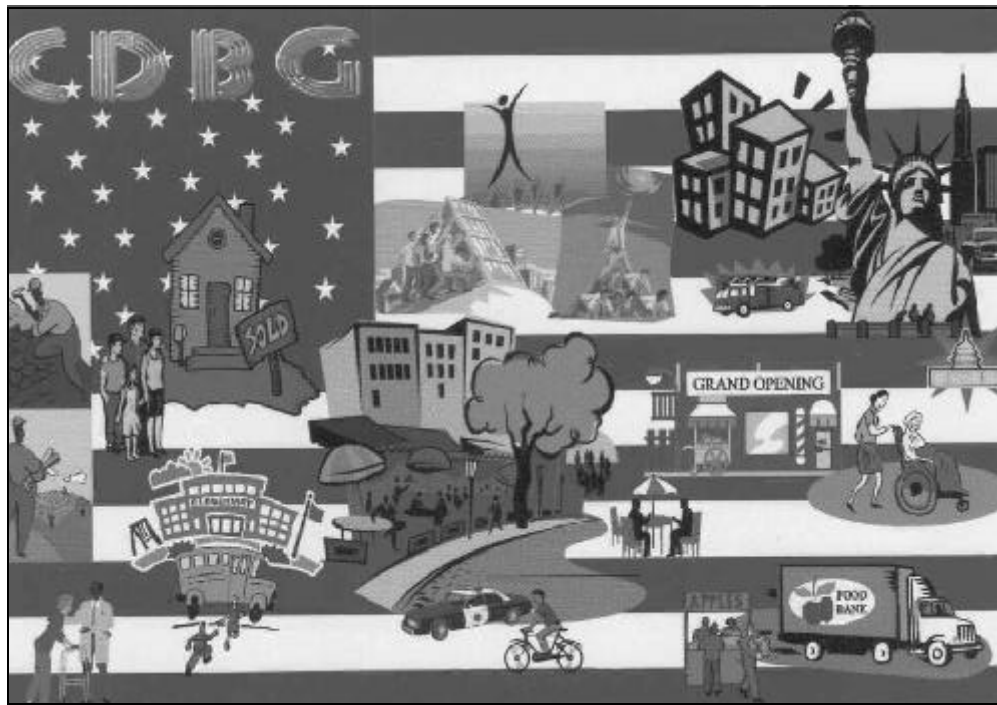
Source: Actuarial Valuation Reports dated December 2003, prepared by Gabriel, Roeder, Smith & Company.

COMMUNITY DEVELOPMENT BLOCK GRANT

	FY 2004 Adopted	FY 2005 Adopted
Revenues		
Program Entitlement	\$ 9,382,000	\$ 9,186,000
Program Income	700,000	825,000 (a)
Estimated Carryover	(300,000)	0
Total	\$ 9,782,000	\$ 10,011,000
Housing		
Housing	\$ 892,300	\$ 967,700
Code Enforcement	3,212,200	3,162,200
Senior Paint Program	50,000	129,900
Emergency Repair Grant Program	50,000	50,000
Residential Demolition	0	150,000
Affirmative Fair Housing	50,000	50,000
Total	\$ 4,254,500	4,509,800
Parks & Recreation		
Senior Hot Meals Program	\$ 100,000	\$ 465,500
Dickey Park Youth Center	667,900	297,500
Enrichment Program	0	150,000
Total	\$ 767,900	913,000
Public Works Facilities & Improvements		
Concrete Reconstruction	\$ 1,189,400	\$ 1,189,400
Concrete and Street Repairs	1,096,500	1,096,500
Storm Water Basin	3,500	4,000
Total	\$ 2,289,400	\$ 2,289,900
Public Services		
Police POP Teams	\$ 1,135,200	\$ 1,008,300
Community Youth & Senior Centers	0	350,000
Recent Refugee Resettlement Services	0	300,000
Total	\$ 1,135,200	\$ 1,658,300
Administration		
Development - Inner City Fee Reduction	\$ 225,000	\$ 225,000
Total	\$ 225,000	\$ 225,000
Loan Repayment		
Section 108 Loan Repayment	\$ 1,025,000	\$ 150,000
Total	\$ 1,025,000	\$ 150,000

	FY 2004 Adopted	FY 2005 Adopted
Private Projects		
Consumer Credit Counseling	\$ 25,000	\$ 40,000
CARE Fresno	60,000	60,000
CURE	0	40,000
Fresno West Coalition for Economic Development	0	65,000
House of Hope of Youth - San Joaquin Valley, Inc.	0	60,000
Total	\$ 85,000	\$ 265,000
Grand Total	9,782,000	10,011,000

(a) Program Income comes primarily from repayment of low interest loans plus interest that were made by the city in prior years.



BUDGET POLICIES

Budget Control

The City operates under the strong-Mayor form of government. Under the strong-Mayor form of government, the Mayor serves as the City's Chief Executive Officer, appointing and overseeing the City Manager, recommending legislation, and presenting the annual budget to the City Council.

The budget of the City of Fresno, within the meaning and context of Section No. 1206 of the Charter, must be adopted by resolution by the City Council:

As provided by Section 1206 of the Charter, any adjustments in the amounts appropriated for the purposes indicated at the department/fund level shall be made only upon a motion to amend the resolution adopted by the affirmative votes of at least five Council members.

Administrative changes within the department/fund level may be made without approval of Council within written guidelines established by the Chief Administrative Officer.

For accounting and auditing convenience, accounts may be established to receive transfers of appropriations from department appropriations for capital improvements in two or more different funds for the same capital project.

Department appropriations in Intragovernmental Service Funds (ISF) may be administratively adjusted, provided no amendment to the resolution is required to adjust the appropriation in the department receiving the service from the ISF.

The funds allocated to the respective accounting object classes comprising the total appropriation for each division or department, are for purposes of budgeting consideration and are not intended to constitute separate appropriations. Funds allocated to an object class may be expended for the purpose of any other object class of such expenditures are within the written guidelines established by the Chief Administrative Officer.

The objective of budgetary controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council. Activities of the General Fund, Special Revenue Funds, and certain Debt Service Funds are included in the annual appropriated budget. Project-length financial plans are adopted for certain capital project funds. The level of budgetary controls (the level at which expenditures cannot legally exceed the appropriated amount) is maintained at the department level by major expenditure category through an encumbrance system prior to the release of purchase orders to vendors. Purchase orders that result in an overrun of department-level balances by object are not released until additional appropriations are made available.

Fund Structure

The City, like other state and local governments, uses fund accounting to ensure that various revenue sources are used for the purpose for which they were intended. The budget document is organized to reflect this fund structure of the City's finances. Fund revenues and expenditures are rolled up to the various object levels by division and department for presentation of information to the public. Budget adoption and subsequent administration is carried out on a fund basis.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to track specific resources and spending for particular activities. All of the funds of the City can be divided into the following three categories: Governmental, Proprietary, and Fiduciary Funds:

Governmental Funds:

This section of funds can be further organized according their type, such as special revenue, debt service, and capital projects. Major funds in this section include the General, Grants, and Redevelopment Agency Debt Service funds.

Proprietary Funds:

This section of funds are generally used to account for services for which the City charges customers; either to the general public or other departments of the City. The City maintains two types of proprietary funds, enterprise and internal service. Enterprise funds are used to report functions of business-type activities within the City. Major enterprise funds include: Public Utilities, Development services, Transportation, Airports, Convention Center, Parking, and Grizzlies Stadium. Internal service funds are used to report activities that provide supplies and services for certain City programs and services. The City uses internal service funds to account for activities such as: maintaining its fleet of vehicles, information systems, building maintenance, printing & mailing services, communications, and self-insurance services.

Fiduciary Funds:

This group of funds are used to account for resources held for the benefit of parties outside the City such as Pension Trust funds and Agency funds. Agency funds consist of City Departmental and Special Purpose funds, and account for City-related trust activity such as payroll withholding and bid deposits. An example of a recently created Special Purpose fund would be the Chaffee Zoo Improvement fund, which is used to channel donations to the Chaffee Zoo specifically for facility improvements. In addition, Agency Funds include Special Assessment funds that account for receipts and disbursements of the special assessment districts within the City.

Basis of Accounting

The City adopts an annual operating and capital budget for Governmental, Proprietary, Debt Service (except Financing Authorities & Corporations and City Debt Service), and Capital Projects Funds (except Financing Authorities & Corporations). These budgets are adopted on the cash basis. Supplemental appropriations during the year must be approved by the City Council. Budgeted amounts are reported as amended.

Encumbrances, which are commitments related to executory contracts for goods or services, are recorded for budgetary control purposes in the Governmental Funds. Encumbrance accounting is utilized for budgetary control and accountability and to facilitate cash planning and control. Encumbrances outstanding at year end are reported as reservations of fund balances, as they do not constitute expenditures or liabilities.

Each of the funds in the City's budget has a separate cash balance position. Reserves represent those portions of fund equity not appropriable for expenditure or legally segregated for a specific future use. Designated fund balances represent tentative plans for future use of financial resources. The cash reserve position is a significant factor evaluated by bond rating agencies assessing the financial strength of an organization. Cash reserve amounts and trends, represent the continued ability of a City to meet its obligations and facilitate the requirements for a balanced budget.

The Debt Service Fund pays expenditures related the City's General Obligation debt. Debt service payments on existing City debt is the first obligation of the Debt Service Fund. Based on revenue estimates and assuming a constant property tax levy, the remaining resources of the fund may be used to assume debt obligations for new capital projects or pay for capital project expenses in the form of temporary notes which are retired in the same year (pay-as-you-go financing).

Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds. The City finances capital projects in a variety of ways: cash, general obligation bonds/notes, revenue bonds, and grants. The debt service payments for General Obligation debt are spread either to the Debt Service Fund or the various enterprise and internal service funds, as appropriate.

The financial statements of the City have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The City prepares its Comprehensive Annual Financial Report (CAFR) in accordance with GASB 34. The Basic Financial Statements include the government-wide financial statements that present an overview of the of the City's entire financial operations, and the Fund Financial Statements that present the financial information of each of the City's major funds, as well as non-major governmental, fiduciary, and other funds. Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Expenditures generally are recorded when a liability is incurred, as un under accrual accounting. However, debt service

expenditures, as well as related to vacation, sick leave, claims and judgements, are recorded only when payment is due.

Budget Development

The preparation of the FY 2005 budget document is the result of a Citywide effort. Each department is presented with an operating base budget that is used as the foundation for building their requests for the operations of their organizations. All one-time expenditure increases are removed, except for those demonstrable and mandatory. Employee services are costed out with current contractual salary increases agreed to in the memoranda of understanding with the various bargaining units. **No salary increases for contracts in negotiations or pending agreement are included in the budget.** Premium Pay is handled as a zero-base item for FY 2005, requiring an itemization of the methodology used to derive the individual requests. Operations and maintenance appropriations were not increased for a cost-of-living adjustment. Travel and training, special projects, minor capital, and contingencies are excluded from the base unless mandated or other special circumstances apply. Interdepartmental charges, lease purchase, and debt service are loaded centrally.

FY 2005 BUDGET CALENDAR

Base Budgets Developed	December/January
Base Budget Rollout to Departments	January 28, 2004
Department Budget Submissions	February 25, 2004
City Manager Review Meetings	March 2004
Mayor's Proposed Budget Presented to Council, Departments, & Public	May 2004
Council/Public Hearings	May/June 2004
Budget Adopted	No later than June 30

During the last fiscal year, Mayor's Office staff, the City Manager's Office staff, and key Departmental staff, with the assistance of the Pacific Institute, prepared a formal plan of action that will provide the guiding direction for the City of Fresno through the 21st century. This plan of action is contained in the Strategic Vision section of the budget.

This plan of action contains the high level thinking of the vision, the set of values, and the key objectives that City staff will operate under. However, for the first time, the plan also contains specific key result areas, goals, and strategies that City Departments are accountable for accomplishing throughout the year. These goals are the basis for prioritizing the limited financial resources that are available to the City each year. Therefore, this year's budget contains bridging statements in the narratives of each Department. These statements identify how each of the goals are funded throughout individual Departments. This funding is also cross referenced within the Strategic Vision section of the budget.

A five year capital budget is required from all departments. The purpose is to give the Mayor and Council a tool to plan for the future, as well as to more realistically reflect the timing of many capital projects that take more than one year to complete. All capital budgets are built in compliance with the City's decision to use Project Costing to track the cost of doing business and associated revenues in either more detail, or in different categories than what a General Ledger-only accounting system would provide. Project Costing uses structural elements that focus on activities including project types, activity types, and resource types. Project costing is available to track cost and revenue detail by Business Unit defined activities and categories, and augments and expands General Ledger information; however it does not replace it. Appropriation controls remain at the fund/organization level. The information provided by Project Costing is intended as a management tool to provide more timely, detailed, and accurate information to the Mayor, City Manager, Council, and the public.

Departments submit their requests to the City's Budget & Management Studies Division (BMSD) to be analyzed and reviewed. Requests are evaluated based on Department specific activities, City funding resources, and the goals/strategies identified by each Department related to the impact on their perspective performance measures. Recommendations are presented to the Mayor and City Manager in a review meeting comprised of management representatives from each department and BMSD. Upon final decisions of format and content, the Mayor's Proposed Budget Document is printed and presented to Council for deliberation and adoption. The Adopted Budget Document is prepared to include all the various changes approved by the Council.

Revenue Estimates

The methodology for calculating revenue estimates varies depending on the source of revenue, however, in general, considerable weight is given to historical trends combined with mitigating economic factors. This is important because the unique composition of the Fresno economy differs from any other area in the state. For example, the recession which hit the state in the late 1980's did not hit Fresno until the early 1990's, and as a result, the economic recovery in the Valley lagged behind the rest of California.

Sales tax revenues are the single largest revenue source to the City's General Fund. As such, it is imperative to forecast this revenue as accurately as possible, because even a single percent variation means a difference of \$600,000 to the fund. Historical trends and the health of the local economy are primary measures for projecting this revenue. Management has employed an outside firm to verify that the City receives all of the sales tax revenue that is entitled, as well as provide an independent resource for forecasting. The projections of this outside firm are not used in the budget, but are used as a checking mechanism for internal projections. Historically sales tax has shown growth every year over the past 20 years except 1992 and 2002 due to recessions. The FY 2004 actual sales tax revenue exceeded budget projections. The growth was budgeted at 3.5 percent, but due to a surge in the local economy the actual growth is 6.4 percent.

The second largest revenue in the General Fund is property tax. This revenue has been more volatile in the last few years due primarily to mistakes made by Fresno County (County) in processing the tax receipts. In an area where property values have only begun to accelerate, the City's property tax revenues have only had moderate increases over the last five years. The main source for projecting this revenue is information received from the County. City staff also use historic trends as well as local development activity. The biggest detractor of property tax revenues are the contributions to the state Educational Revenue Augmentation Fund (ERAF). For FY 2005, the City expects property tax revenue to increase by four percent as Fresno has experienced an influx of new housing developments fueled by strong buyer demand in the local real estate market, coupled with the County reassessment of City property values.

The third major source of revenue are Motor Vehicle in Lieu fees (MVLF). When combined with sales and property taxes, the three account for nearly 77 percent of the City's annual revenue. The state has changed the process for providing this revenue source to the City but it continues to grow at a healthy rate. For the current fiscal year, the rate of growth is difficult to validate due to the State deferral of \$4.1 million of revenue and the complicated realignment of additional revenues to fund County Social/Health programs. The FY 2005 revenue estimate is based on the formula recommend by Michael Coleman of the League of California Cities. For the City of Fresno, this amount is six percent above the FY 2003 actuals.

Budget Administration

The budget establishes appropriation and expenditure levels. Expenditures may be below budgeted amounts at year end, due to unanticipated savings realized from Department operations. The existence of a particular appropriation in the budget does not automatically mean funds are expended. Due to the time span between preparing the budget, subsequent adoption by the governing body, as well as rapidly changing economic factors, each expenditure is reviewed prior to any disbursement. These expenditure review procedures assure compliance with City requirements, and provide some degree of flexibility for modifying programs to meet the changing needs and priorities of the public. Therefore, Fresno City's FY 2005 budget is a forward-looking policy document which reflects a snapshot in time of the City's strategies to best serve the public.

Capital Projects Funds are used to account for the financial resources to be used for the acquisition or construction of major capital facilities other than those financed by proprietary funds and trust funds. The City finances capital projects in a variety of ways: cash, general obligation bonds/notes, revenue bonds, and grants. Based on Generally Accepted Accounting Principles (GAAP), the debt service payments for General Obligation debt are spread either to the Debt Service Fund or the various enterprise and internal service funds, as appropriate.

PROCESS TO ENSURE BUDGET ACCURACY

The following steps have been taken by the Budget Division to ensure the accuracy of the financial numbers found in this FY 2005 Budget Proposed document.

The Data is System Generated: The FY 2002 and 2003 data contained in the financial section of each department was downloaded directly from the BRASS (budget) system. BRASS obtains all financial actuals via direct uploads from the City's PeopleSoft financial system.

Numbers are Checked back to the BRASS System: The FY 2004 Amended and FY 2005 Adopted revenues and expenditures were checked and footed to the BRASS system.

"Balanced Budget" Verification: The revenues and total expenditures were then checked against each other to ensure that they "balance" with consideration given for system rounding.

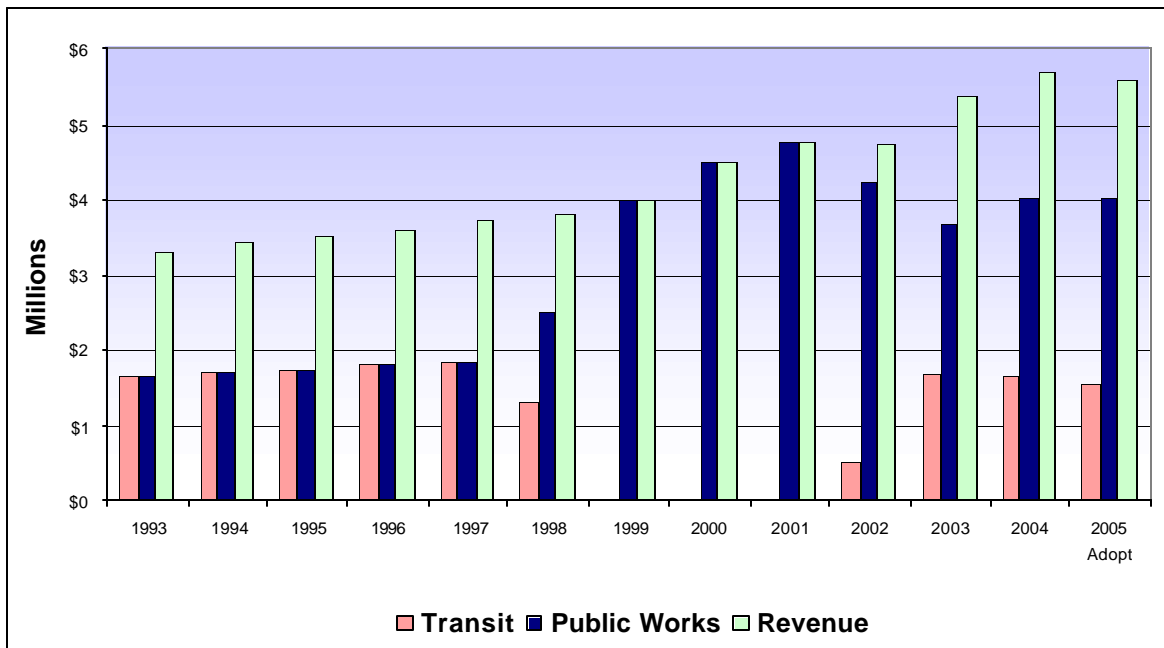
Manual Departmental Verification: Each department's information was again verified, respectively, by a Budget Analyst. The numbers were then "second-setted" (double checked) by a second Analyst.

The Budget Office understands the utmost importance of accurate historical budget presentation, and we are continually implementing improvement processes to ensure precision.

MEASURE C REVENUE AND EXPENDITURE HISTORY

	Transit	Public Works	Revenue
1993	1,648,150	1,648,150	3,296,300
1994	1,711,350	1,711,350	3,422,700
1995	1,756,000	1,756,000	3,512,000
1996	1,795,900	1,795,900	3,591,800
1997	1,849,900	1,849,900	3,699,800
1998	1,302,100	2,503,000	3,805,100
1999	0	3,991,200	3,991,200
2000	0	4,494,400	4,494,400
2001	0	4,711,800	4,771,800
2002	500,000	4,218,700	4,718,700
2003	1,688,200	3,689,800	5,378,000
2004	1,651,100	4,042,400	5,693,500
Adopted 2005	1,570,000	4,030,000	5,600,000

MEASURE C REVIEW AND EXPENDITURE



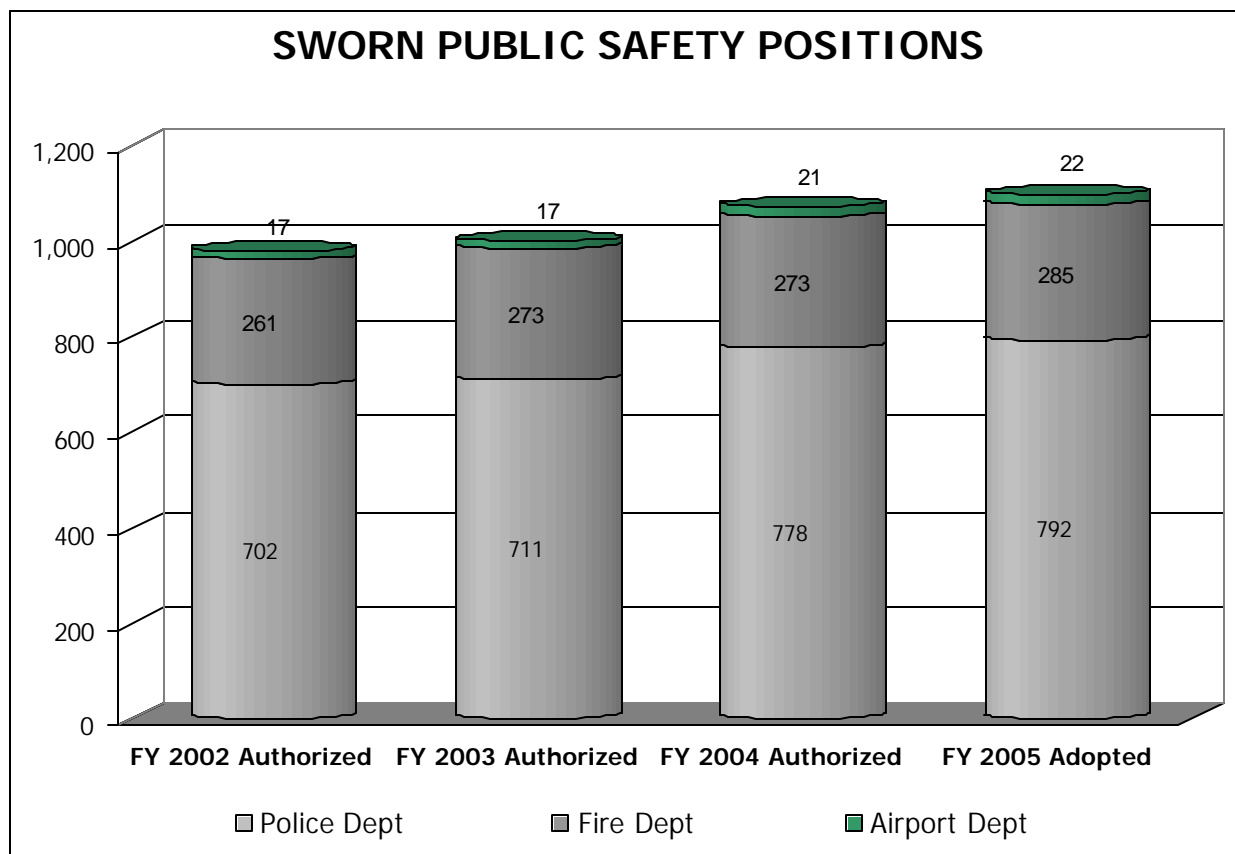
Approved by the voters in 1986, Measure C is a sales tax surcharge of 0.5 percent that is imposed on all eligible sales in Fresno. Measure C monies are to be spent exclusively for local transportation purposes.

The surcharge is collected by the State Board of Equalization and sent to the Fresno County Transportation Authority. The Authority distributes the monies according to the distribution formula specified in the Measure C enacting legislation. Policies regulating the expenditure of the City of Fresno's share are made each year during the budget process.

FOCUS ON ESSENTIAL SERVICES

One of the City's primary responsibilities is the protection of its' citizens. A particular emphasis is placed on the commitment to public safety and the prevention of violent crime. The adopted FY 2005 budget includes resources to fund a total of 28 additional sworn public safety positions in the Airport, Fire, and Police Departments.

The adopted FY 2005 budget also includes over \$5.8 million for public safety improvements. These improvements include renovations to existing fire stations as well as the maintenance of the stations. In addition, Fire Station No. 15 will be fully operational in FY 2005 and will provide fire protection services in southeast Fresno. Fire Station No. 17 is also under construction and will replace temporary Fire Station No. 21 which serves the Woodward Park area.



* Fire Department - Sworn personnel includes firefighters and other Sworn personnel.

WORKERS' COMPENSATION ANALYSIS

Escalating Workers' Compensation costs are being driven by the following at the State and local levels of government:

- ▶ Medical Costs - In FY 2004, Risk conducted a survey of their peer cities regarding their FY 2003 Workers' Compensation claims. Of the five peer cities which responded, only the City of Sacramento had a better cost per claim ratio of \$1,790, than the City's ratio of \$1,952 per claim. During the first six months of FY 2004, medical costs for the City rose 17 percent above those incurred in the first six months of the previous year.
- ▶ Temporary Disability Benefits - Temporary Disability mandated benefit levels rose to \$728 per week in January 2004, this benefit will increase again in January 2005 to \$840 per week. This represents a 71 percent increase of benefits since Assembly Bill 749 went into effect in January 2003, and a 15 percent increase over calendar year 2004 benefits.
- ▶ Injury Pay - The City currently pays the majority of its employees an amount equivalent to 85 percent of their full salary for injury pay. This amount is in contrast to the 66 2/3 percent mandated by the State. An analysis of the amount of injury pay employees received in the first six months of FY 2004 indicates that approximately 22 percent of those employees receiving injury pay actually received more pay than what their estimated net pay would have been. In the past year, two of the City's eleven bargaining units have agreed to a reduced benefit of 76 percent while those members of management who are not represented have had their benefit reduced to the State mandated level of 66 2/3 percent.
- ▶ Excess Insurance - Excess insurance rates continue to escalate. Workers' Compensation rates for this coverage are anticipated to be in the range of twenty-five to forty percent higher than the previous year, with excess liability coverage increases in the range of twenty-five to thirty-five percent, and excess property coverage increasing by ten to twenty percent.
- ▶ The Law - In mid April, Governor Schwarzenegger signed a workers' compensation reform package into law. Under this new law employers will have greater controls on directing medical treatment for injured workers, there will be limits on permanent disability awards which will minimize compensation for subjective complaints, and employers will be encouraged to provide alternative employment within their organizations for those workers who cannot return to their previous jobs.

The FY 2005 Proposed Budget was developed prior to the new reform act being signed into law and therefore does not reflect any potential cost savings the City may realize in FY 2005.

The Risk Management Division has developed a proactive plan on addressing the management of Workers' Compensation cost containment. The plan includes the following actions:

- ▶ Medical Cost Containment - In December 2003, the City entered into a three year contract with American All-Risk Loss Administrators (AARLA) to act as third party administrator for the City's Workers' Compensation program. This change in administrators is anticipated to result in medical cost savings due to enhanced medical bill review and bill reduction services, as well as use of the new administrator's Preferred Provider Network (PPO).

Provisions contained within the workers' compensation reform package also have the potential to provide relief from rising medical costs.

- ▶ Training - In FY 2005, 24 training sessions will be presented focusing on Defensive Driver Training, CPR/First Aid, Hazard Communication, and Repetitive Motion Injuries. These areas were selected following a review of each Department's Log of Occupational Injuries and Illnesses, and a needs assessment completed by the individual departments. Training sessions presented in FY 2004 are attributed with reducing the City's accident frequency by eight percent during the first six months of this fiscal year.

- ▶ Inspections - Perform a minimum of 25 facility inspections/ergonomic evaluations to identify and correct potential unsafe conditions and acts.
- ▶ Light Duty Program - Risk staff will continue to facilitate a Citywide program to return injured workers to "light duty" assignments in order to return employees to productive work assignments and lower injury pay.
- ▶ Incentive Program - In FY 2004, Risk staff worked with personnel in the Water, Solid Waste and Sewer Divisions to implement safety incentive programs. Staff will continue to assist Divisions in this area.
- ▶ Disciplinary Action - Over the past year Risk staff reviewed all incoming disciplinary actions regardless of cause. In FY 2005, Risk Management staff will continue to perform this review and recommend corrective action in cases involving safety violations.
- ▶ Safety Committee - The City Wide Safety Committee was formed in July 2003 as part of the City's "Push Up Safety" project. The Committee will remain active in 2004-2005 and be charged with analyzing the City's loss experience and disseminating information.
- ▶ Tailgate Sessions - Risk staff to provide sessions on various topics of current safety and Workers' Compensation issues. Session topics are customized by department and based on types of injuries incurred.



CLEAN AIR INITIATIVES

FY 2005 CLEAN AIR OBJECTIVES

In April of this year the Environmental Protection Agency downgraded the San Joaquin Valley's smog rating from "severe" to "extreme" nonattainment of the federal one-hour ozone standard. Los Angeles is the only other area to previously receive this rating. This downgrade further illustrates that air quality is not only an issue for the City of Fresno, but the entire San Joaquin Valley. In FY 2003 the City partnered with other local Valley cities, counties, businesses, agricultural, non-profits, health and environmental groups to move forward "Operation Clean Air", a regional initiative committed to taking action to improve the Valley's air quality.

In FY 2005 the City is currently implementing or sustaining several programs that meet the goals of Operation Clean Air. These programs include:

Capital Investments:

- 12-15 Low emission replacement buses
- 22 Liquid Natural Gas (LNG) replacement refuse trucks
- 7 New LNG refuse trucks
- 10 Hybrid (gasoline/electric) vehicles
- 2 Electric utility vehicles
- Retrofit of existing diesel buses for reduced emissions
- Retrofit of 40 existing refuse trucks for reduced emissions
- Implementation of a new LNG fuel facility
- Construction of a Compressed Natural Gas (CNG) fuel facility

New Programs:

- Implementation of Downtown Van Pool
- Implementation of a Downtown Trolley Service

Fleet Clean Air Strategy

Existing Vehicles	
Light Vehicles	Purchased with low emission vehicle (LEV) technology.
Heavy Vehicles	Use ultra-low sulfur diesel fuel to realize a 10% reduction in particulate matter.
New Vehicles	
Light Vehicles	Purchase patrol vehicles with ultra-low emission vehicle (ULEV) technology.
Heavy Vehicles	Procure refuse trucks with liquid natural gas (LNG) technology. Realize a 40% reduction in Nox, 85% in particulate matter.
Construction Equipment	Procure equipment equipped with a diesel particulate trap. Realize an 85% reduction in particulate matter with use of ultra-low sulfur diesel fuel is used.

Current "Clean Air" Fleet

- 15 Natural Gas Pickups, Vans and Sedans
- 7 Hybrid (gasoline-electric) Sedans
- 31 Electric Vehicles
- 5 Propane Powered Vehicles
- 43 LNG Powered Refuse Trucks
- 2 Retrofitted Diesel Powered Refuse Trucks with combination lean Nox catalyst and diesel particulate filters
- 1 Used Water Truck with diesel oxidation catalyst
- 1 17 Yard Dump Truck with diesel particulate filter
- 1 Ten Yard Loader Tractor with combination lean Nox catalyst and diesel particulate filter
- 1 Five Yard Loader Tractor with diesel oxidation catalyst
- 2 Asphalt Patch Trucks with diesel particulate filters
- 1 Eight-wheel Articulated Agricultural Tractor with combination lean Nox catalyst and diesel particulate filter
- 2 Aerial Platform Trucks with a diesel particulate filters
- 2 Claw Loaders with a diesel particulate filters
114

Additional "Clean Air" Vehicles for FY 2005

- 29 LNG Refuse Trucks (Solid Waste / Community Sanitation)
- 1 Compact Hybrid Gasoline/Electric Sedans (1 Water)
- 2 Electric Utility Vehicles (Wastewater)
- 9 Hybrid ½ ton Trucks
- 5 Heavy Trucks with exhaust after-treatment devices
46

LNG INITIATIVES

Why LNG for Refuse Trucks?		
Issue	LNG	CNG
Range	Equal to Diesel Trucks	Less than Diesel (Space to mount the number of tanks required to equal diesel is not available on refuse trucks.)
Payload	Equal to Diesel Trucks	Less than Diesel (Added weight from the number of tanks required to equal diesel lowers payload on refuse trucks.)
Availability	Widely Available From Truck Dealers	Not Widely Available from Truck Dealers
Emissions	Meets Low Emission Standards	Meets Low Emission Standards

LNG Fueling Station

To comply with the California Air Resources Board Diesel Risk Reduction Program Rules, and as a result of Council decisions, forty-three (43) LNG refuse trucks are in service, ten (10) units are being built, and nineteen (19) more will be on order. Fleet Management operates a new 12,000 gallon capacity LNG fuel station at the Municipal Service Center to provide LNG fuel for these trucks.

Fuel Cost Comparison

- **Diesel:** City of Fresno current cost for Ultra-Low Sulfur Diesel Fuel = \$1.84/gallon
- **LNG (Diesel Equivalent Gallon is LNG cost multiplied by 1.7)**

Contract Type	LNG Gallon	Diesel Equivalent Cost of LNG	Diesel Fuel Cost	Variance	%
Annual Contract *	\$.97	\$1.65	\$1.84	(\$.19)	(11%)
Private Station (No Contract)	\$1.16	\$1.98	\$1.84	\$.14	8%

* Based on current delivered price of bulk LNG from Clean Energy as of 4/29/04.

CNG INITIATIVES

Why CNG for Transit Buses?		
Issue	LNG	CNG
Range	Not Applicable	Equal to Diesel Buses (Tank mounting space available on roof.)
Payload	Not Applicable	Equal to Diesel Buses (Payload is not an issue for transit bus application.)
Availability	Not Widely Available from Bus Manufacturers	Widely Available from Bus Manufacturers
Emissions	Meets Low Emission Standards	Meets Low Emission Standards

CNG Fueling Station

In FY 2005, the Department of Transportation (FAX) will complete the construction and begin operation of one of the largest alternative fueling facilities in the San Joaquin Valley. The completion of this project will facilitate the expansion of alternative fuel vehicles in the region. The increased use of CNG vehicles will be immediate as FAX has CNG vehicles that are not utilized because of fueling constraints. Currently CNG buses and trolleys are fueled off site at with substantially slower pumps than will be built into the new facility. FAX has identified grant dollars to fund a portion of the design and construction of this facility and is pursuing grants for the remainder of this cost. Once the facility is built, ongoing utility and maintenance costs will be required. The FY 2005 budget includes \$354,000 of appropriations for the estimated annual maintenance, fuel, electricity, and other utility costs related to the facility.

Fuel Cost Comparison

- **CNG:** Visa Petroleum Station = \$1.55 per Therm (Diesel Equivalent Gallon Cost = \$1.94)
Note: Diesel Equivalent Gallon for CNG, cost must be multiplied by 1.13.

GANN LIMITS

COMPUTATION OF SPENDING LIMIT

METHOD A Using: 1) Percent change in Per Capita Personal Income
2) Percent change in City Population

Fiscal year	Population as of	City Population	Percent Change	Per Capita Change	Factor	Previous Years' Spending Limit	Adjusted Spending Limit
91-92	1/1/91	367,664					
92-93	1/1/92	382,349	3.82%	-0.64%	1.0316		172,709,236
93-94	1/1/93	391,646	2.75%	2.72%	1.0554	172,709,236	182,285,618
94-95	1/1/94	402,122	2.34%	0.71%	1.0307	182,285,618	187,875,614
95-96	1/1/95*	395,470	1.54%	4.72%	1.0633	187,875,614	199,773,190
96-97	1/1/96	400,884	1.24%	4.67%	1.0597	199,773,190	211,695,471
97-98	1/1/97	406,937	1.51%	4.67%	1.0625	211,695,471	224,927,532
98-99	1/1/98	411,611	1.40%	4.15%	1.0561	224,927,532	237,541,693
99-00	1/1/99	415,381	1.54%	4.53%	1.0614	237,541,693	252,126,188
00-01	1/1/00	420,600	1.80%	4.91%	1.0680	252,126,188	269,266,684
01-02	1/1/01	435,662	1.80%	7.82%	1.0976	269,266,684	295,549,159
02-03	1/1/02	441,870	1.42%	-1.27%	1.0013	295,549,159	295,939,183
03-04	1/1/03	448,453	1.49%	2.31%	1.0383	295,939,183	307,286,140
04-05	1/1/04	456,100	1.71%	3.28%	1.0504	307,286,140	322,773,361

METHOD B Using: 1) Percent change in Per Capita Personal Income
2) Percent change in County Population

Fiscal Year	Population as of	County Population	Percent Change	Per Capita Change	Factor	Previous Years' Spending Limit	Adjusted Spending Limit
91-92	1/1/91	686,727					
92-93	1/1/92	713,248	3.68%	-0.64%	1.0302		166,161,116
93-94	1/1/93	732,797	3.06%	2.72%	1.0586	166,161,116	175,903,528
94-95	1/1/94	754,712	2.64%	0.71%	1.0337	175,903,528	181,829,267
95-96	1/1/95*	745,100	1.94%	4.72%	1.0675	181,829,267	194,105,594
96-97	1/1/96	757,363	1.52%	4.67%	1.0626	194,105,594	206,258,514
97-98	1/1/97	771,137	1.82%	4.67%	1.0657	206,258,514	219,819,999
98-99	1/1/98	781,632	1.62%	4.15%	1.0584	219,819,999	232,651,398
99-00	1/1/99	793,766	1.54%	4.53%	1.0614	232,651,398	246,935,640
00-01	1/1/00	805,000	1.90%	4.91%	1.0690	246,935,640	263,982,323
01-02	1/1/01	808,131	1.70%	7.82%	1.0965	263,982,323	289,464,379
02-03	1/1/02	821,465	1.65%	-1.27%	1.0036	289,464,379	290,503,686
03-04	1/1/03	841,423	2.43%	2.31%	1.0480	290,503,686	304,435,327
04-05	1/1/04	862,600	2.52%	3.28%	1.0588	304,435,327	322,337,294

* Population figures were revised by the State. The percentage increase remained the same.

DEBT OBLIGATION

At the end of the current fiscal year, the City had total long-term obligations outstanding of \$732.9 million. Of this amount, \$204.0¹ million is general obligation bonds backed by the full faith and credit of the City and \$426.1 million is revenue bonds of the City's business enterprises. The remainder includes lease revenue bonds, certificates of participation, and tax allocation bonds for general governmental projects. During fiscal year 2004, the City's total bonded debt increased by approximately \$34.0 million. The increase was due to the issuance of a new Lease Revenue Bond to fund various capital improvements. The City also advance-refunded one bond.

The ratio of net general obligation bonded debt to taxable valuation and the amount of bonded debt per capita are useful indicators of the City's debt position to management, citizens, and investors. A comparison of these indicators follows:

	FY 2003	FY 2004
General Bonded Debt	\$207,895,000	\$204,095,000
General Bonded debt per capita	461.37	447.48
Debt Service tax rate per \$100 taxable valuation	1.18	1.08

Although the City's Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time of 20 percent of the assessed value of property in the City, the City realizes that it cannot currently support debt of that magnitude with its current tax base, and is very cautious about issuing general obligation debt. The City's ratings on uninsured general obligation bonds as of June 30, 2004 were:

Moody's Investors Service, Inc.	A1
Standard and Poor's Corporation	AA-
FitchRatings	AA-

In April 2004, the City's general obligation bond rating was reviewed by the three rating companies, and each determined that the City's rating should be upgraded, citing Fresno's stable economy and strong financial results, as characterized by prudent management practices and above-average reserves. Following the events of September 11, 2001, Standard & Poor's placed all its North American airport and airport-related facilities, including Fresno Yosemite International Airport, on CreditWatch. On August 21, 2001, Standard & Poor's published a summary stating that the outlook on the airport was stable, and removed it from CreditWatch.

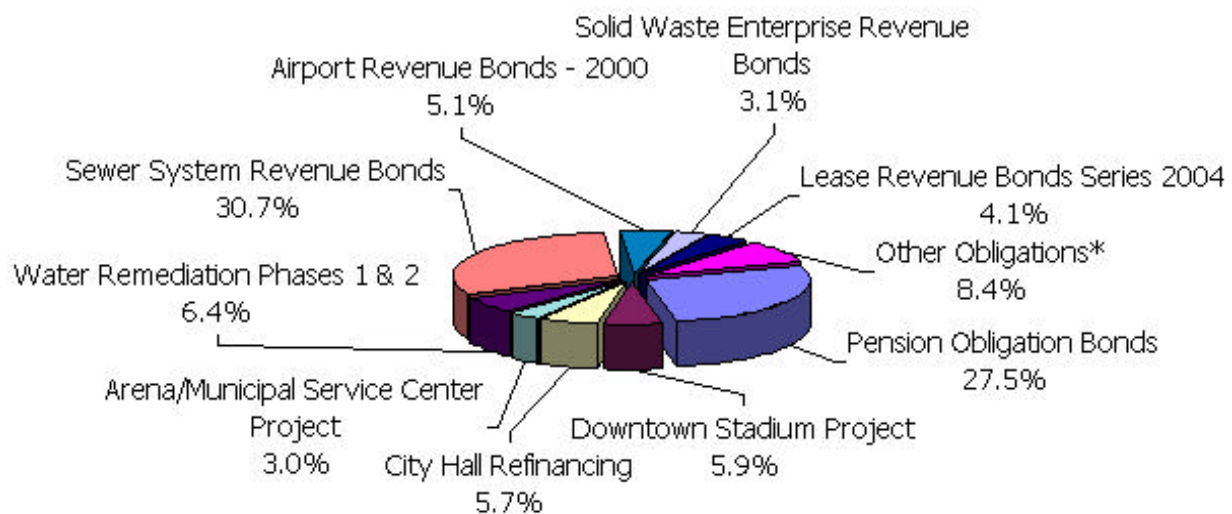
Since the close of the 2004 fiscal year, the City has issued no additional debt. There are a number of limitations and restrictions contained in the various bond indentures, which the City believes it is in compliance with all significant limitations and restrictions. As of June 30, 2004, the City's debt limit (20 percent of valuation subject to taxation) was \$3.78 billion. The total amount of debt applicable to the debt limit was \$204.0 million, resulting in a debt margin of \$3.58 billion.

¹Pension and Judgement Obligation Bonds

Citywide Debt Obligations as of June 30, 2004			
In Thousands (000)			
Obligation	Repayment Source	CPLTD	Principal Outstanding
Pension Obligation Bonds	General Fund/Pension Accounts	\$ 16,190	\$ 198,420
Downtown Stadium Project	Diamond Group/RDA/Taxes Parking/City Events/General Fund	3,449	45,130
City Hall Refinancing	Dept. Rent Revenue/General Fund	3,362	36,985
Arena/Municipal Service Center Project	Convention Center Revenues	1,789	5,955
Water Remediation Phases 1 & 2	DPU Operating Revenue	3,737	46,990
Sewer System Revenue Bonds	DPU Operating Revenue	18,067	232,775
Airport Revenue Bonds - 2000	FYI Revenue/Passenger Facility Charges	2,994	41,815
Solid Waste Enterprise Revenue Bonds	DPU Operating Revenue	1,848	14,845
Lease Revenue Bonds Series 2004	General Fund/Public Works Parking Enterprise	2,431	52,780
Other Obligations*	Various	4,938	57,210
Totals		\$ 58,805	\$ 732,905

*Other obligations and corresponding current portion of long-term debt (in thousands) includes: Exhibit Hall

FY 2005 Citywide Current Portion of Debt Service Expenditures



Expansion - \$1,636, Conference Center Refinancing - \$1,052, Street Light Acquisition Project - \$759, Street Improvement Project - \$964, and Judgement Obligation Bonds - \$527.

Introduction

Fiscal actions by the State of California are having a significant impact on the ability of local governments to provide services to their communities. For the City of Fresno, an estimated \$150 million in City property tax, sales tax and vehicle license fee revenue has been shifted to the State over the past ten years. These ongoing revenue shifts are compounding existing defects in the fiscal relationship between the state government and local governments. For the City of Fresno and other Central Valley local governments, this is having a profound and lasting impact on services to residents as well as on our ability to improve our communities through avenues such as economic development.

The State of California has consistently and unfairly ignored the Central Valley by not providing funding for special projects to meet the unique needs of our impoverished communities. While the Bay Area received tens of millions of dollars for high-speed rail, the Central Valley received comparably miniscule special transportation dollars. This is reflected in the dilapidated condition of State Highway 99, the Central Valley transportation artery. While the Port of Long Beach received millions of dollars to open and refurbish its ports, the Central Valley received virtually no assistance with projects to boost our struggling economy and infrastructure. In addition, both the Bay Area and Southern California benefit from having diverse economies fueled with diverse revenue streams. This is in considerable contrast to Valley communities' heavy reliance on property tax and sales tax for general government uses; for the City of Fresno, these two revenue sources alone provide more than 55 percent of our General Fund revenues.

Finally, the Central Valley's severe and persistent epidemic of unemployment must be acknowledged and addressed. Fresno's chronic 12-13 percent unemployment rate is more than twice the 5 percent median of the largest 12 cities in the state and is representative of the region as a whole. Several factors contribute to high unemployment including seasonal fluctuations in the agricultural industry, lack of a more diverse economy and educational challenges. All these factors combine to make the Central San Joaquin Valley's fiscal environment unique in California and deserving of state government assistance at least equivalent to that of the northern and southern regions.

This report addresses three areas of the Central Valley's financial relationship with the State of California that should be addressed in order for Valley communities to fully share in the bounty of the Golden State:

- Transportation Funding
- State Operational Aid
- Equalization Funding for Education

Transportation Funding

The state transportation funding picture for California is bleak. With transportation funds redirected to close the State of California's General Fund deficit, allocations to projects have been significantly reduced. Billions of dollars in needed and promised transportation projects have been stopped or delayed, and cities and counties are not receiving state subventions committed to them in statute for local road construction, rehabilitation and repair. The Central Valley has been hit particularly hard in this area.

California Transportation Commission (CTC)

The CTC was established in 1978 by AB402 in response to the need for a single, unified California transportation policy. The Commission replaced and assumed the responsibilities of four independent bodies: California Highway Commission, State Transportation Board, State Aeronautics Board, and California Toll Bridge Authority. As the public review body for the state's transportation goals and projects, the CTC is charged with programming and allocating funds for the construction of highway, passenger rail and transit improvements throughout California. In addition, the Commission advises and assists the Secretary of Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for the state's transportation programs.

The Commission is an independent state agency consisting of nine members appointed by the Governor to staggered four-year terms. There also are two non-voting ex-officio members, one from the State Senate and one from the State Assembly (usually the respective chairs of the transportation policy committee in each house). **The Central San Joaquin Valley is not represented by the appointed commissioners**, who come from Sacramento, San Francisco, Pleasanton, Sunnyvale, Riverside, Canoga Park, West Covina, and Riverbank (north of Modesto). Currently there is one vacancy on the CTC.

STIP – State Transportation Improvement Program

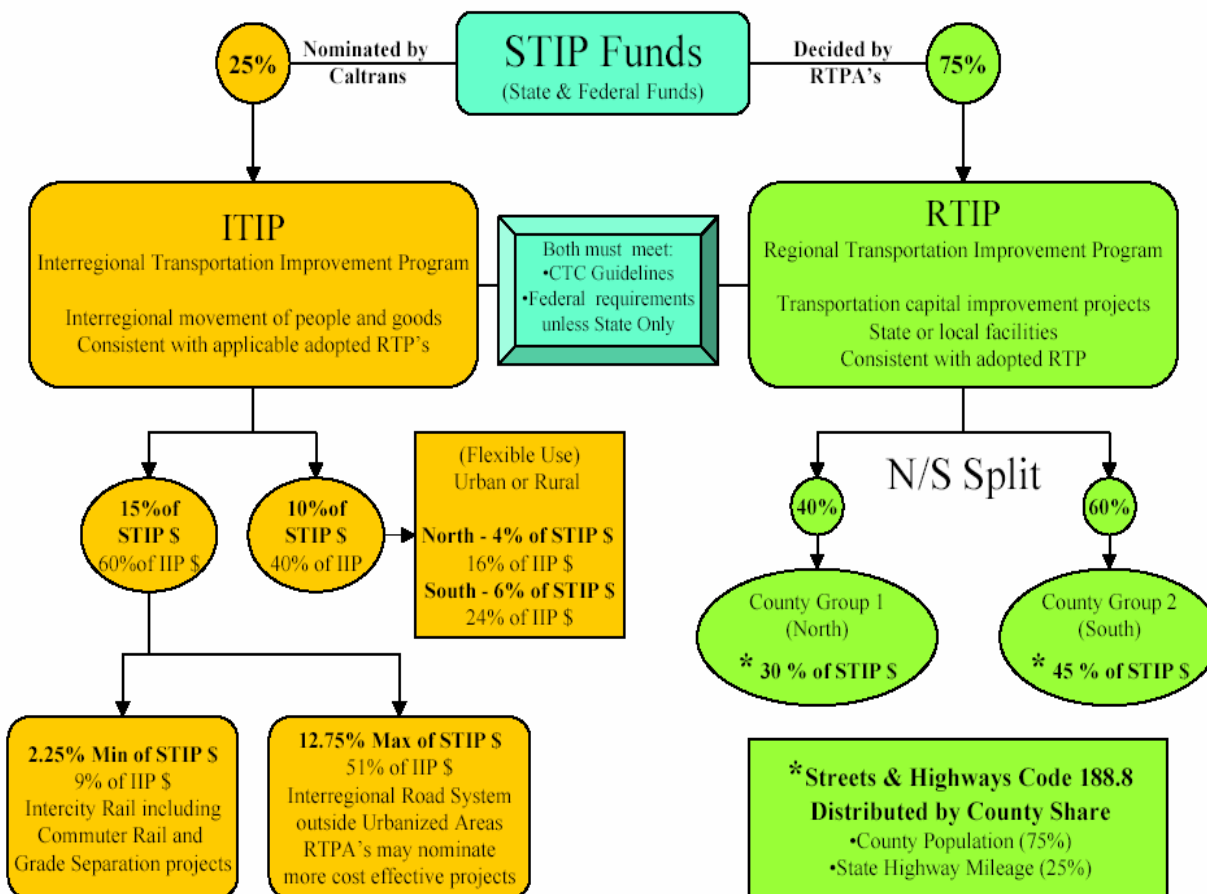
The STIP is the primary component of the statewide transportation funding program. It is a multi-year capital improvement program that represents the planned commitments of state and federal transportation dollars approved by the CTC and developed in cooperation with the California Department of Transportation (Caltrans). The STIP's goal is improvement of the mobility, accessibility, reliability, sustainability and safety of transportation in California.

Funding for the STIP is comprised of approximately 89 percent federal dollars and 11 percent matching state dollars. Examples of projects include state highways, local roads, intercity rail and public transit systems, pedestrian and bicycle facilities, grade separations, transportation system management, transportation demand management, sound walls, intermodal facilities, safety, and environmental enhancement and mitigation. The current STIP covers the period 1998-99 through 2003-04 and is funded at \$7.3 billion (RTIP-\$5.3 billion; ITIP-\$2 billion).

Proposed STIP projects are presented to the CTC as part of a complete Interregional Transportation Improvement Program (ITIP) nominated by Caltrans, or Regional Transportation Improvement Program (RTIP) nominated by a regional transportation planning agency (RTPA). Fresno's RTPA is the Fresno County Transportation Authority (FCTA). RTIP projects proposed for the Fresno area are nominated by the Council of Fresno County Governments in partnership with FCTA. The Transportation Commission reviews the ITIP and RTIP proposals and may reject projects based on criteria such as: inconsistency with STIP guidelines; insufficient funds; conflicts with other RTIPs or the ITIP; lack of inclusion in an approved Congestion Management Program; or determination that the projects are not a cost effective expenditure of state funds.

The figure below presents the flow of the decision-making process for STIP funding. The allocation method was adopted via SB45 in 1998. Funding guidelines are contained in Section 188 of the California Streets and Highways Code.

State Transportation Improvement Program (STIP) Fund Allocation



Source: California Transportation Commission, 2004 STIP Guidelines

Because there is such complexity in the process, additional charts have been provided in following pages to illustrate and explain the funding allocation formula.

As illustrated in the flow chart above, STIP funds are split between 1) projects nominated by Caltrans (ITIP - 25 percent of total) and 2) projects nominated by regional transportation planning agencies (RTIP - 75 percent of total).

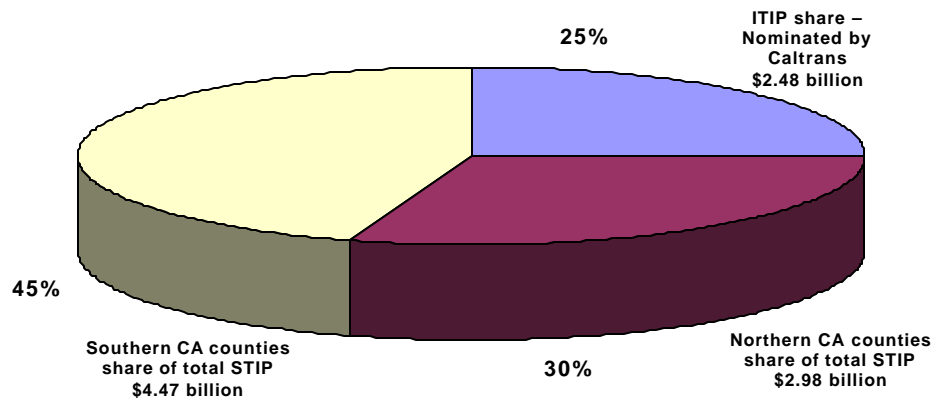
Of the 75 percent of RTIP funds available, by statute 40 percent are allocated to northern California counties (County Group 1) and 60 percent are allocated to southern California counties (County Group 2). Fresno County is assigned to Group 1, the northern counties group as shown below.

Geographic Split of RTIP – 75 percent of STIP



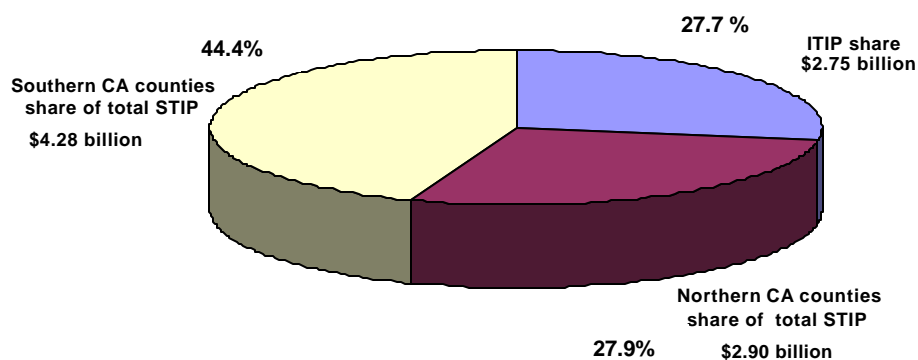
The 40-60 percent funding split of the 75 percent of RTIP funds means that northern counties receive only 30 percent of statewide STIP dollars for transportation capital improvement projects, as illustrated in following chart.

FY 2002 STIP Share Amount: ITIP & RTIP Formula Allocation



The 30 percent of total STIP dollars available for northern counties is allocated based on a formula that considers two factors: county population (75 percent) and state highway mileage (25 percent). The graph below shows the actual dollar allocations for the 2002 STIP program.

FY 2002 STIP Share Amount: ITIP & RTIP Actual Allocation



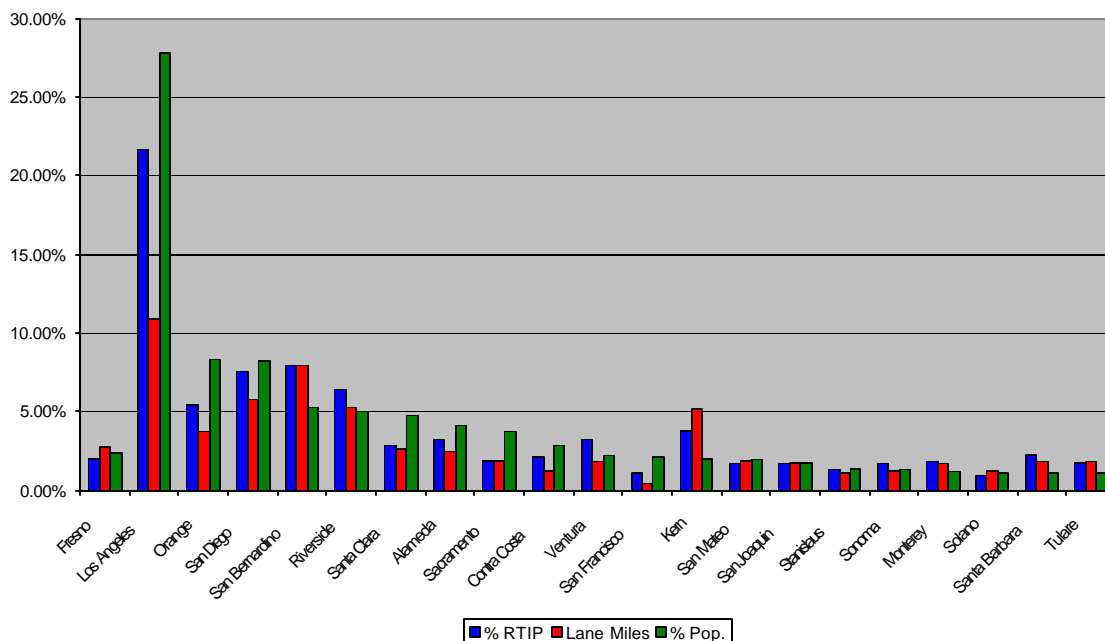
Source for three graphs above: CTC, 2002 Report of STIP Balances

During the 2002 STIP year, Fresno County received \$145 million in RTIP funds. Although this is only a snapshot of the program, it is likely representative of the longer-term funding situation. With 2.4 percent of the state's population and 2.8 percent of highway lane miles, Fresno County's total STIP share (including both RTIP and ITIP) for that period was only 1.45 percent of the total allocation. This may indicate disparity in the application of the STIP funding formula (or in the formula itself) – with the caveat that over the life of any capital program, funding varies from year to year based on project scheduling.

Per Caltrans, from 1999-2003, \$41 million of state highway funds were spent on Highway 99 from Kern County to San Joaquin County. This figure includes all design and construction costs. As STIP funding was \$9.93 billion during that period, \$41 million appears to be a very small investment in this major transportation artery.

The three graphs that follow present STIP funding data for Fresno County and the 20 other California counties that have populations over 300,000 (or one percent of the state total). The information is presented by county because that is the manner in which the data are most commonly tracked and arrayed by the state. The first graph compares the counties' actual percent of total 2002 RTIP allocation to percent of total state population and lane miles.

**Actual 2002 Percent RTIP Share Amount to
Percent of State Total Lane Miles and Population**

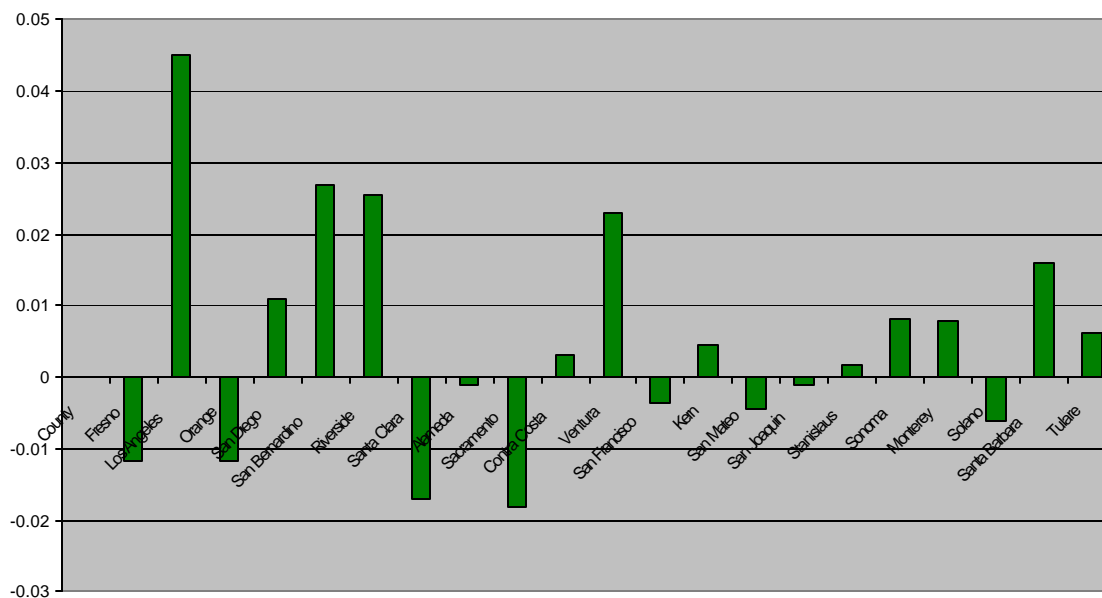


Fresno County's RTIP share percentage is less than both its percentage of state population and percentage of lane miles. This suggests that Fresno County, and by extension the Central San Joaquin Valley, is not getting its fair share of available transportation funds. Although several heavily populated counties show RTIP allocation percentages below their population percentages, lane miles appear to serve as the equalizer – meaning, even where RTIP is below population, it is above the lane miles figure. Interestingly, Kern County, which is in the southern counties group, receives RTIP funds at a percentage in excess of its population percentage.

The next graph shows the disparity between a county's RTIP share amount based on the allocation formula, versus the amount actually programmed for the 2002 program year. This presents another perspective using the same population and lane mile data. The calculation accounts for the differential (+/-) between each county's percentage, above or below zero, of population and lane mile percentages

as compared to the state totals. The individual differentials were then combined for a net plus/minus differential, with RTIP funding as the point of reference.

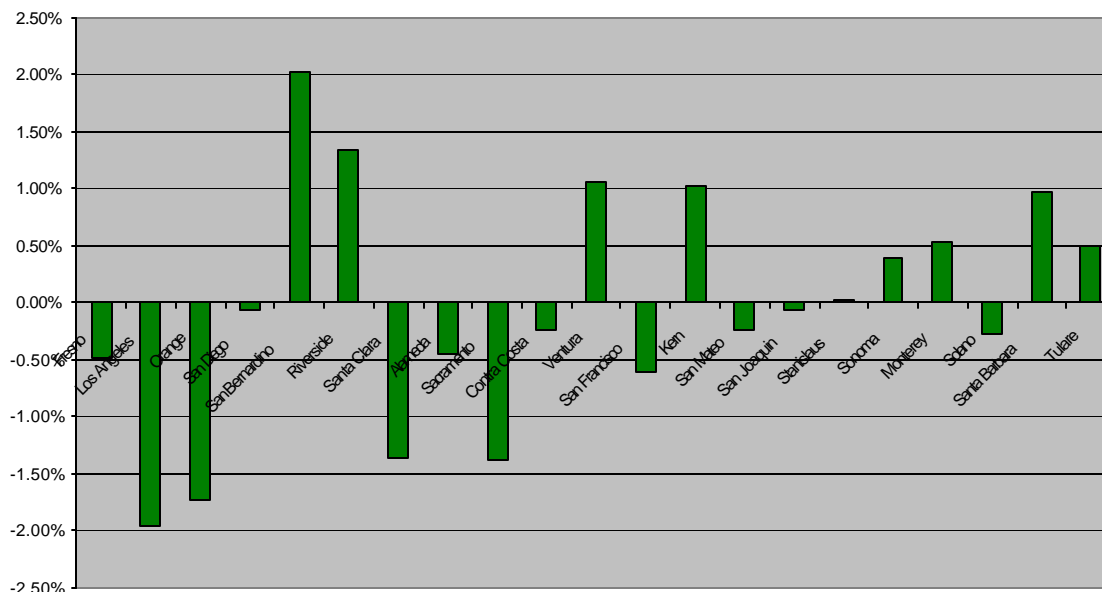
**FY 2002 RTIP Actual Share Amount Net Differential on Population and
Lane Miles:
Percent of State Totals**



For Fresno County, there is a net negative differential, which means it receives less RTIP funding than it would if the funding share were apportioned “equally” based on the population and lane mile factors. A zero differential would indicate that a county received exactly its “fair share” of RTIP based on its percentage of total population and lane miles. It shows the impact if lane miles were equally measured with population in allocation of state transportation funds.

Population is a significant factor in the funding formula, as illustrated in the graph above, which does not account for a weighted population figure in the RTIP formula. Once the weighting system employed by the state is applied to RTIP share amount allocation, the allocation system over corrects for population. The following graph presents essentially the same information except that it accounts for the differences in population and lane mile weighting in the RTIP formula.

**FY 2002 RTIP Actual Share Amount Net Weighted Differential on
Population and Lane Miles:
Percent of State Totals**

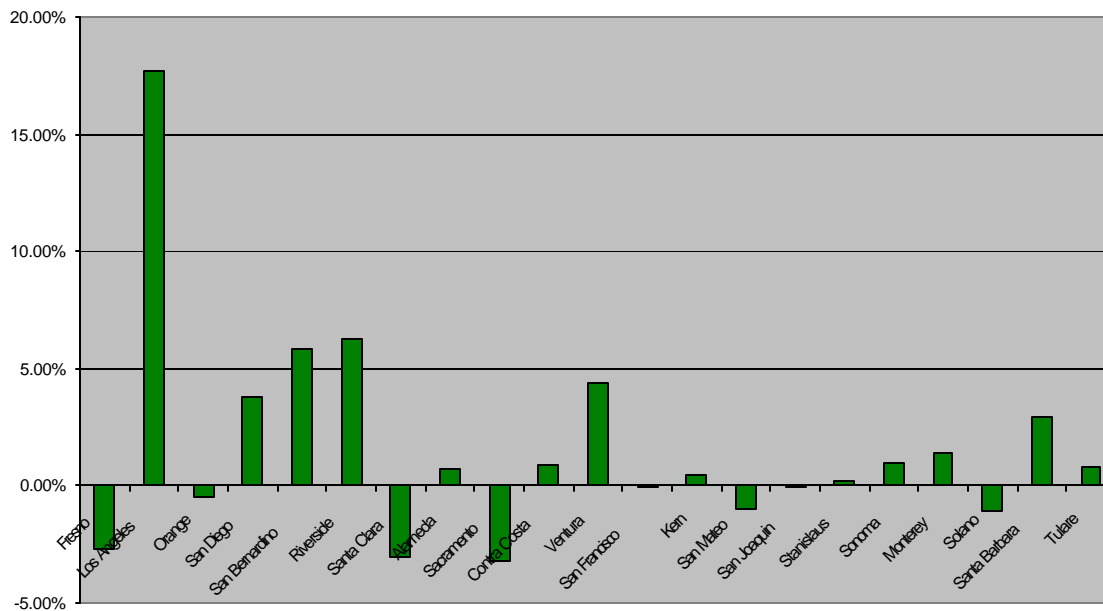


In this illustration, the differential data for the most heavily populated counties tells a different story when population is weighted as in the RTIP allocation formula. With the population factor weighted three to one as in the RTIP formula, Los Angeles County now is shown as receiving less than its fair share of funding. Fresno County is still in a net negative differential position, since population is not as significant an element. Clearly, the population component of the RTIP funding formula substantially impacts the share amounts. Evaluation of the formula's equity must consider population as a factor.

The next graph includes three additional components in the calculation of differential: center lane miles, average vehicle miles traveled daily (AVMT) and vehicle registration, in addition to population and lane miles. (Note: "center lane miles" controls for the number of lanes of a highway by counting only the center lane.) As with the preceding graphs, the net differential indicates the cumulative percentage amount a county is above/below what would be considered "fair share" with RTIP allocation as the reference point.

Although the center lane miles, AVMT and vehicle registration components are not considered in the current RTIP funding formula, they were added to recognize the various other factors that may impact the need for transportation capacity and safety enhancements, and to again illustrate potential funding disparities between counties.

**FY 2002 RTIP Net Differential of Population, Center Lane and
Lane Miles, Vehicle Registration, AVMT:
Percentage of State Totals**



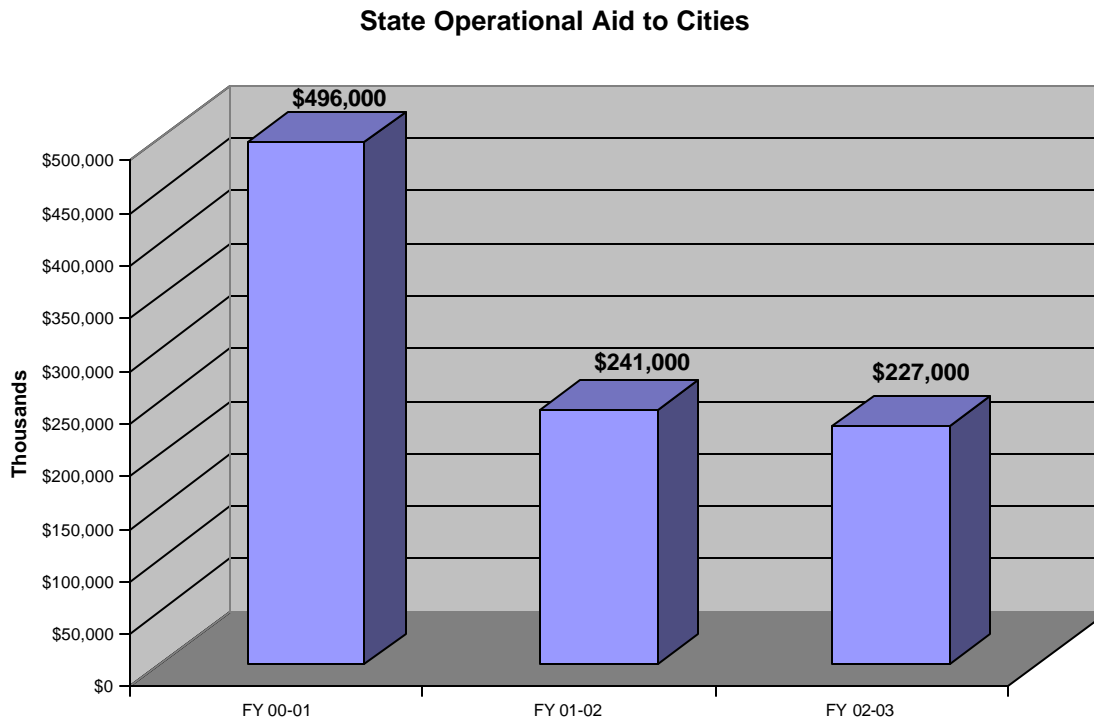
Several conclusions can be drawn from the totality of this transportation funding data:

- Fresno County's assignment to the northern counties group for RTIP funding means that it must compete for its morsel out of the smaller piece of the statewide funding pie.
- Fresno County is not receiving its fair share of funding based on the RTIP formula, at least in the year shown.
- Fresno County is not receiving its fair share of funding when additional factors (not in the formula) are considered that may impact the need for transportation improvements.
- The weighted population factor in the RTIP share allocation formula has a significant impact on funding.

State Operational Aid to Cities

Over the past decade and particularly in the last few years, state general fund aid to cities has decreased dramatically. As the state's budget problems have worsened, the amount of aid provided to municipalities has correspondingly been reduced. In addition to making it difficult for cities to plan and budget, it is having a substantial impact on their ability to provide essential services. Such funding, which totaled only \$227 million in 2002-03 in a state general fund of \$78 billion (3/10 of 1 percent), consists primarily of police technology grants, local law enforcement supplemental funding, traffic congestion relief, and public library foundation funding. Statewide, state aid accounts for only 1.5 percent of total city revenues.

The chart below illustrates the drop in state aid to cities over the last three fiscal years.



*State general fund assistance to cities excluding the City and County of San Francisco.
Does not include taxpayer relief or mandate reimbursement.*

Source: Coleman Advisory Services and State Department of Finance; www.westerncity.com

In addition to reducing an important and historic source of revenue for cities, the state is changing its fiscal relationship with them by redirecting local revenues for state purposes. This has fundamentally diminished cities' own control over their budgets and resulted in them becoming, as a group, net donors to the state general fund. Key factors in this shifting fiscal relationship are well documented: the property tax shift from cities, counties and special districts to schools that began in 1992 (known as ERAF); sales tax reallocation; and reductions of Vehicle License Fee (VLF) and redevelopment tax increment revenue. The State of California exerts control over 60-90 percent of city general purpose revenues statewide. (Source: Michael Coleman and Bob Leland, "State Intrusion Creates Fickle Fiscal Future for Cities," *Western City*, April 2003)

The following table outlines the disparities that exist between the government entity (city/state) vested with deciding tax/fee rates and allocations versus determining who will pay the tax/fee. Cities are incrementally losing local fiscal control and becoming agents of the state in the same manner as are counties in relationship to the state government.

Control of City Revenues

Tax/Fee	Rate & Allocation Decided By ...	Who Pays Decided By...
Sales & Use Tax	City/voters; limited by state law; allocation determined by state law	State
Property Tax	City/voters; limited by state Constitution; allocation determined by state law	State
Vehicle License Fee	State law; allocation restricted to cities and counties by state Constitution	State
Utility Users Tax, Business Tax & Transient Occupancy Tax	City/voters; allocation determined by city	City/voters
Franchises, Real Property Transfer Tax	City/voters; limited by state law; allocation determined by city	City/voters; limited by state
Intergovernmental subventions	State	State
Local Assessments	City/affected property owners	City
Fines & Forfeitures	State	State
Service Charges & User Fees	City	City

Source: Coleman Advisory Services; www.westerncity.com/Apr03figure5

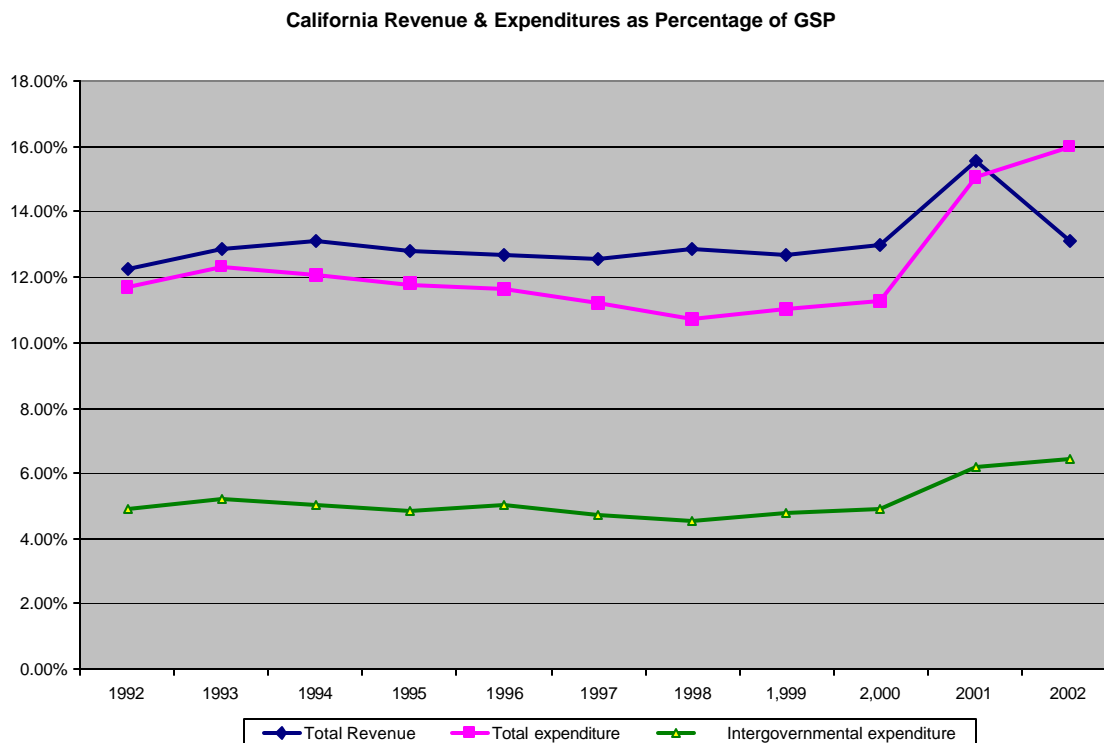
As a result of this shift in control of resources from cities to the state, “substantial impairment” of cities’ home rule authority is occurring. This is manifested in a severe and lasting effect on their ability to properly fund basic and essential municipal services such as public safety and public works. In addition, the instability of cities’ revenue sources and the constant threat of losing more of their resource base damages long-term planning and investment as well as cooperative governance. Leaders may be reluctant to build public infrastructure when the ongoing funding needed for operations and maintenance are at risk. Capital projects are frequently the subject of delay when revenues are in doubt and choices have to be made between essential services such as public safety and new facilities.

Uncertainty about revenue streams also leads to a short-term view in planning for service delivery, particularly that associated with land use development. The burden of addressing immediate needs frequently diminishes decision-makers critical perspective about the implications of their decisions. Quick fixes may prevail at the expense of visionary leadership. For example, it may be difficult to assign high priority to needed housing and economic development projects when the task of balancing the current year’s budget is looming and revenue forecasts are uncertain. Finally, inter-jurisdictional cooperation may suffer when revenue expectations are uncertain, as competition for resources breeds animosity and mistrust.

The juxtaposition of the timing of the increased shift of local government resources to the state government, against the multi-year decline in overall revenues statewide, results in a devastating formula for cities and counties. While municipalities are scrambling to balance their budgets with shrinking resources, they must also contend with the fallout from a state budget that has grown out of control. Rather than putting a cap on spending to address the drop in revenue, the state, until recently, did the opposite.

The graph below shows total state revenues plotted against total state expenditures, as a percentage of gross state product (GSP, an indicator of economic activity). Intergovernmental expenditures – which includes aid to cities – have been extracted and shown separately. The graph shows that, not only did the state continue to increase spending when revenues were plummeting, but intergovernmental

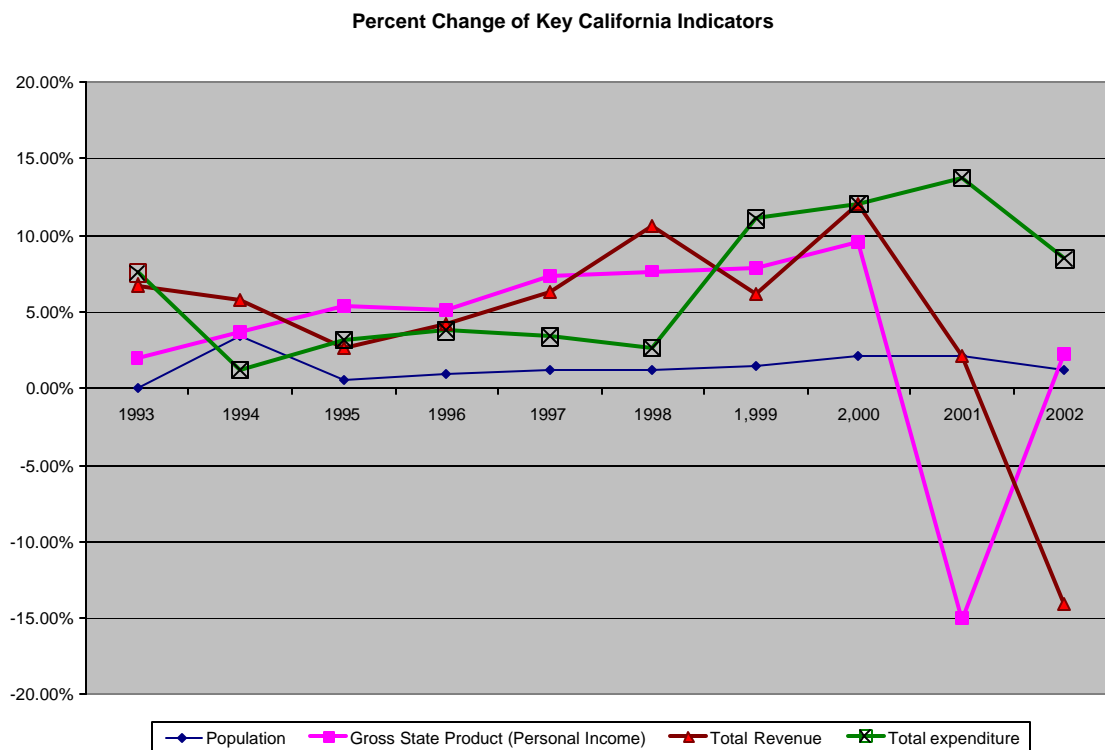
spending did not keep pace with the overall increase in state spending (2000-02). ***This illustrates that, in addition to the state failing to properly manage its finances, cities did not fully share in the state budget's upswings during that period.***



Source: California Department of Finance documents

Starting in 2001-02, state revenues declined sharply while expenditures continued on their upward path. The rate at which expenditures grew during 2000-01 is particularly alarming, as it exceeded even the healthy revenue growth trend. During the same period, intergovernmental expenditure showed only modest gains. Although much of the revenue gains were generated by municipalities, they did not experience the full benefit.

The next graph correlates population, GSP, and state revenue and expenditures to illustrate their relationship or lack thereof. The similarities in the trends between GSP and revenue indicates how closely linked those indicators are and how important a healthy state economy is to generating revenue for the state. Revenue and GSP began to fall at the same point on the timeline. The expenditure line tells the same story as described by the above graph, and the inclusion of population as a factor provides a point of reference.



Source: California Department of Finance documents

The story in this graph is that, because the state's political and bureaucratic mechanisms are unable to react quickly to economic downturns, it must do a better job of managing revenue and expenditures on the "up" cycles. The key issue is lack of control of state spending, which exacerbates the effect of a declining revenue base and ultimately harms cities and counties when they must fill the gaps.

Equalization Funding for Education

California has over 1,000 public school districts. The districts receive funding from a variety of local, state and federal sources. Some of the funds are earmarked for specific purposes such as special education and class size reduction, and the rest are for general purposes. General purpose funding a school district receives per student is called its “revenue limit” and is calculated using a complex “average daily attendance” (ADA) formula. Revenue limits are a combination of local property taxes and state taxes, and are individualized between school districts based on type (elementary, high or unified), size, historical spending patterns, and many other variables including needs of the student population. For districts in which locally raised revenue is not sufficient to meet the district’s revenue limit, the state contributes revenue to reach the limit.

Districts whose locally raised revenue is adequate to reach the revenue limit are called “basic aid districts.” The state does not provide additional tax revenues to these districts but does contribute minimum ADA funds to fulfill its constitutional requirement. School districts that raise revenue in excess of need keep the overage and also receive the ADA. There are approximately 60 basic aid districts in the state. The number varies from year to year as local property tax revenues fluctuate.

The result of this allocation formula is that the amount of revenue per student can vary from district to district. State funds earmarked to raise the revenue level of underfunded school districts is referred to as “equalization” funding. Equalization funding is discretionary and budgeted annually as the state budget permits. When available, it is provided to districts depending on their individual ADA factor; districts with greater need receive more equalization funding relative to districts with less need. The Governor’s proposed budget includes \$110 million for equalization funding.

Although the ultimate objective of equalization is to achieve a true “average” statewide amount of revenue per student, because of basic aid districts this will never be accomplished. The goal, therefore, should be to continue to equalize revenue-per-student allocations between districts to the extent possible. The state has made significant progress in this regard over the last seven years, and it is estimated that approximately 80 percent of the state’s districts are equalized.

The table on the following page shows the revenue limits for the ten largest school districts in California including Fresno Unified at number four. Also included are enrollment figures, average API (academic performance index) scores, the percent of students that receive free lunches, and the percent of students that are limited English speakers.

**Revenue Limits and Supporting Data:
California's Ten Largest School Districts**

	County	No. of Schools	Enrollment	REVENUE LIMIT	Avg. API	% Free Lunch Students	% of ELL Students
Los Angeles Unified	Los Angeles	641	739,971	4,835.13	3.9	72.60%	41.50%
San Diego City Unified	San Diego	179	139,914	4,799.10	5.6	57.10%	28.60%
Long Beach Unified	Los Angeles	89	97,212	4,766.99	4.9	66.90%	34.00%
Fresno Unified	Fresno	95	80,407	4,754.75	2.7	78.20%	31.10%
Santa Ana Unified	Orange	53	62,145	4,788.13	2.6	78.40%	67.00%
San Francisco Unified	San Francisco	112	57,960	4,761.11	5.1	64.90%	33.40%
San Bernardino City Unified	San Bernardino	62	55,858	4,857.00	2.6	81.50%	25.70%
San Juan Unified	Sacramento	80	52,007	4,819.67	7.2	25.70%	8.40%
Sacramento City Unified	Sacramento	78	52,002	4,796.84	4.5	65.90%	31.00%
Oakland Unified	Alameda	99	51,321	4,827.32	3.0	62.20%	28.50%
AVERAGES			138,880	4,801.85	4.2	65.30%	32.90%

Source: California Department of Education, School Fiscal Services Division

According to the chart, there is only a slight difference between the revenue limits of the largest districts in the state. At \$4,755, Fresno Unified's per student revenue is less than 1 percent below the average of the districts represented. This represents \$3.78 million in general purpose revenue. The Fresno County Office of Education reports that countywide, the revenue limit is approximately \$5,000 per student. The other factors shown in the table, which may contribute to the success (or lack thereof) of a district's programs, are important to note. For example, Fresno Unified's average API score is among the lowest of the districts shown. Perhaps API scores should be weighted more appreciably in the formula for distribution of revenue limit funding.

Conclusion

Cities are increasingly at the funding mercy of the state government, which has shifted the historic fiscal relationship between itself and municipalities through the mechanism of revenue transfers. At the same time as it has failed to control its own budget, the state has redirected city resources to state purposes and substantially reduced operational aid to cities, with the result that cities are losing their ability to provide essential services. Transportation and education equalization funding are also negatively impacted by the state's budget crisis.

For the City of Fresno, Fresno County, and surrounding communities, the state's disdain for home rule has exacerbated the inherent local problems of chronic unemployment and dependence on sales and property tax revenues. The three areas surveyed in this report – transportation funding, state operational aid, and equalization funding for education – are only three examples of the impact of the state's neglect of Central Valley local governments. Similar situations may exist in the areas of state commission appointments and healthcare funding. Central San Joaquin Valley cities must continually seek avenues to ensure they receive their fair share of state assistance, with the ultimate goal of maintaining and increasing a high quality of life for residents.

On July 10, 2002, Mayor Alan Autry established the Task Force on City Efficiencies and Revenues (the "Task Force"). The Task Force, comprised of two members of the Mayor's Council of Economic Advisors and three members of the City's Finance Department, set out to define recommendations aimed at the accomplishment of the following objectives:

- I. Maintain or improve City services, even in the face of budget cuts resulting from State-level cuts;
- II. Identify potential efficiencies in the delivery of city services; and
- III. Identify fiscally prudent revenue sources to invest in building a stronger foundation for Fresno's future.

To meet these goals, the Task Force undertook the following concurrent activities:

- Benchmarking of Fresno's revenues and expenditures verses those of comparable California cities;
- Identification of "Best Practices" in the best-managed cities across the U.S., and initial exploration of their potential application in Fresno;
- Development of a contingency plan in anticipation of expenditure cuts resulting from the state-level budget crisis; and
- Analysis of alternative revenue sources to meet long-term investment objectives.

The ten California cities that most closely resemble Fresno were chosen for benchmarking of expenditures and revenues (See Chart 1). These cities range in population from 244,000 in Stockton to 1,233,000 in San Diego, compared to Fresno at 428,000. Benchmarking was based almost entirely on available published data, including audited Comprehensive Annual Financial Reports ("CAFRs"), California State Controller Reports and published budgets for the Fiscal Year 2003. ***It is important to note that while this report is based on the best available published data, many of the source documents are two to three years old, so much of this report is a retrospective view that does not incorporate recent developments, either in Fresno or the benchmarked cities. It is, however, the belief of the Task Force that the conclusions formed would not be materially altered if the data were fully updated.***

The most relevant comparisons apply to the General Fund and the Internal Service Funds, since it is in these funds that City Government has the largest latitude for action. To put the contents of this report in perspective, Fresno's 2003 General Fund Departments are budgeted at \$176 million, and Internal Service Departments at \$89 million. The Enterprise Funds, generally funded by user fees and other financing mechanisms with constraints, plus the Trust Funds, account for a combined \$482 million.

MEETING THE CHALLENGE

Benchmark Cities
Chart No. 1

City	Population	% growth 1990-2000	Sq. Miles Land Area	% Housing Owner Occupied	2000 Med. Household Income	Unemploy- ment	Per Capita Income	Per Capita Taxes
San Diego	1,223,400	10.1%	324.3	49.5%	\$49,946	3.0%	\$24,443	\$370
San Jose	894,943	14.2%	174.9	61.8%	\$87,000	2.3%	\$23,619	\$499
Long Beach	461,522	7.4%	50.4	41.0%	\$40,515	5.0%	\$21,603	\$422
Fresno	427,652	20.3%	104.4	50.6%	\$46,950	12.9%	\$16,233	\$278
Sacramento	407,018	3.0%	97.2	50.1%	\$38,786	5.2%	\$20,476	\$454
Oakland	399,484	-0.1%	56.1	41.4%	\$27,095	4.7%	\$20,348	\$656
Santa Ana	377,977	14.8%	27.1	49.3%	\$54,854	4.6%	\$13,304	\$357
Anaheim	328,014	23%	48.9	50.0%	\$49,216	2.9%	\$22,722	\$473
Riverside	255,156	12.6%	78.1	56.6%	\$37,034	5.4%	\$20,549	\$299
Bakersfield	247,057	34.3%	113.1	60.5%	\$44,405	8.3%	\$19,148	\$295
Stockton	243,771	15.3%	54.7	51.6%	\$37,804	10.4%	\$16,096	\$308
Median	399,484	14.2%	78.1	50.1%	\$44,405	5.0%	\$20,476	\$370

Identification of *Best Practices* was done against the best-managed cities in the U.S. Information was obtained from the International City/County Management Association (ICMA) and the U.S. Conference of Mayor's Best Practices Awards. No relevant *Best Practices* were omitted, on the reasoning that the Task Force's obligation was to identify any and all ways of making Fresno City government more efficient.

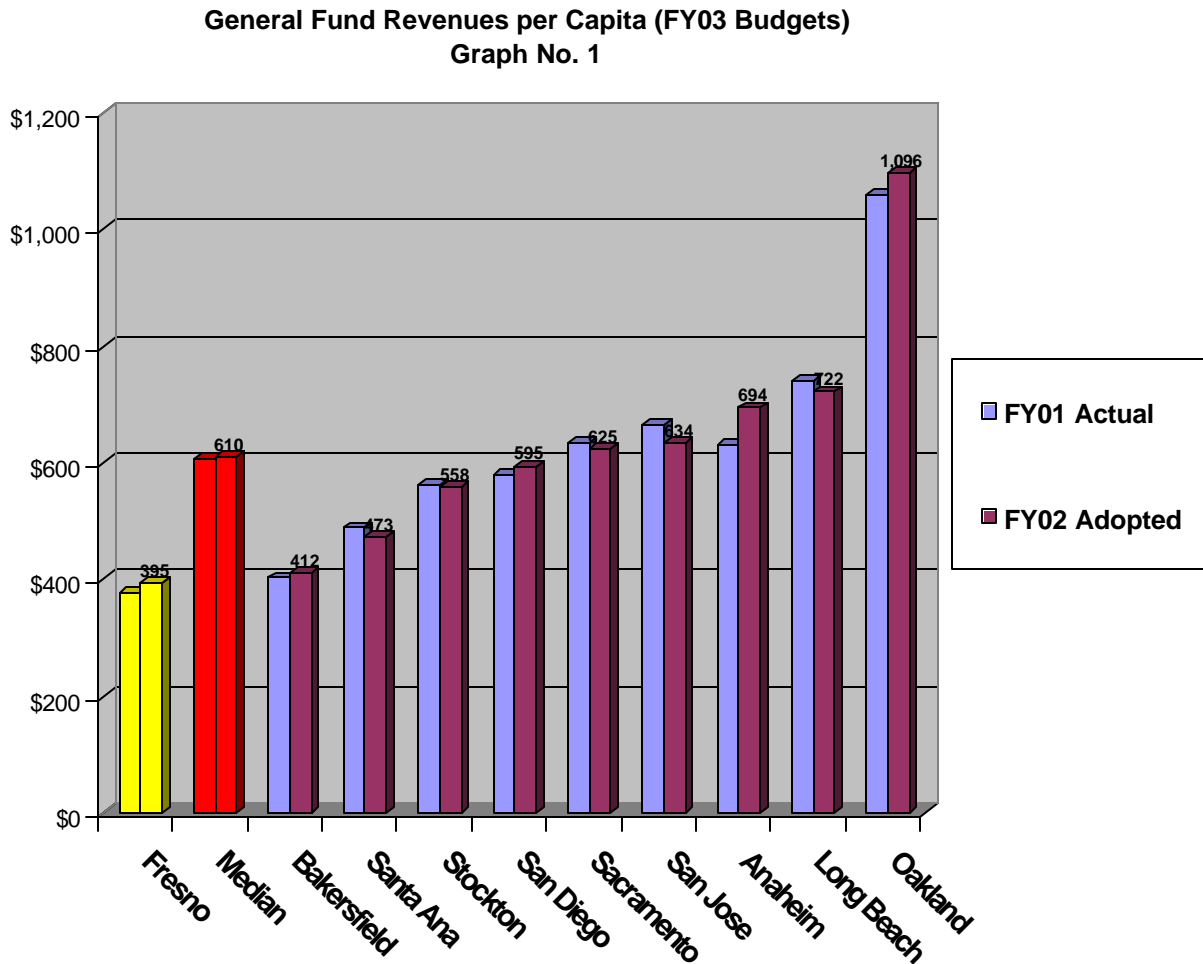
The Contingency Plan was developed by the City's Department and Division managers, under guidance and instructions from the Task Force.

MEETING THE CHALLENGE

KEY FINDINGS

1. Fresno collects less revenue per capita than all its California peers.

Fresno's **General Fund revenues per capita** are 35% below the median of the ten benchmark cities. See Graph No. 1.



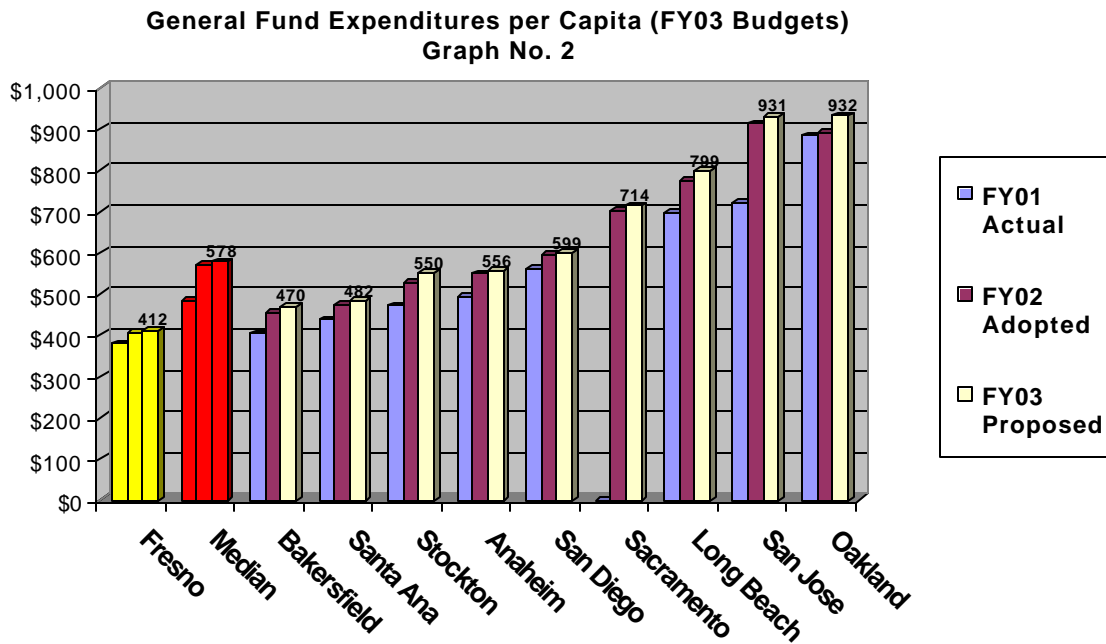
2. Fresno's Citizens pay less per capita in municipal taxes than their California peers.

As shown on Chart No. 1, the Citizens of Fresno pay approximately 25% less in **municipal taxes** than the median of the benchmark cities. It is noteworthy that, while Fresno **per capita income** is lower than the median, total **household income** is slightly higher than the median (because there are more wage earners per household in Fresno). Even after adjusting for the lower per capita income, Fresno citizens still pay 15% less in municipal taxes on average than their peers.

MEETING THE CHALLENGE

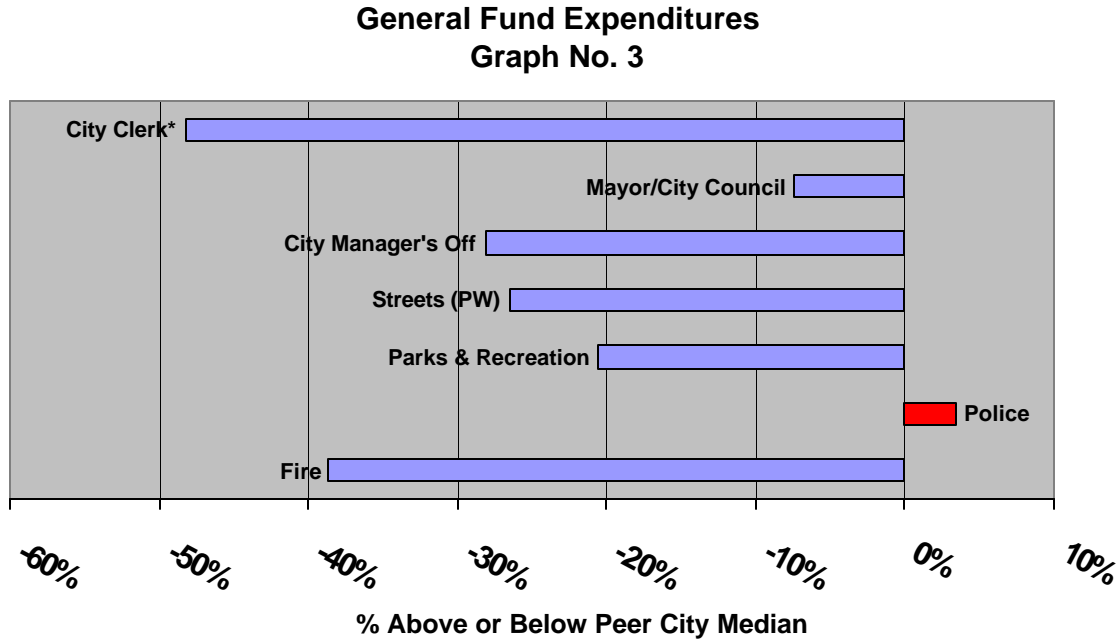
3. Fresno spends significantly less than its peers in most functions, with the notable exception of Police.

Fresno's General Fund expenditures per capita are lower than all its peers and approximately 30% below the peer median (see Graph No. 2). It is impossible to determine with precision the extent to which the significantly lower levels of *per capita spending* by Fresno in most functions is attributable to (a) lower cost of services and/or (b) higher service delivery efficiencies and/or (c) lower levels of service. Benchmarking of the per capita number of personnel (FTEs) required to deliver services suggests that lower cost of services is a contributing factor, but there is reason to believe that the other two factors are also contributors, i.e., that Fresno city government is doing more with less and that some service levels are lower than those of the peer cities.



MEETING THE CHALLENGE

Graph No. 3 illustrates which General Fund operations are above or below the median of the peer cities, and by what percentage. The **City Clerk's Office** is almost 50% below the median in large part because the scope of this office is narrower than it is in most other cities. The **Mayor and City Council** are combined into one category for comparability because half the cities in the peer group do not report these numbers separately. The Mayor's office in Fresno (including the Office of Education) costs taxpayers \$1.31 per capita half as much as do their counterparts in San Jose and San Diego, and one third as much as Oakland. The **City Manager's Office**, **Public Works** and **Parks and Recreation** are all 21% to 28% below the median. The **Fire Department** is almost 40% below the median.

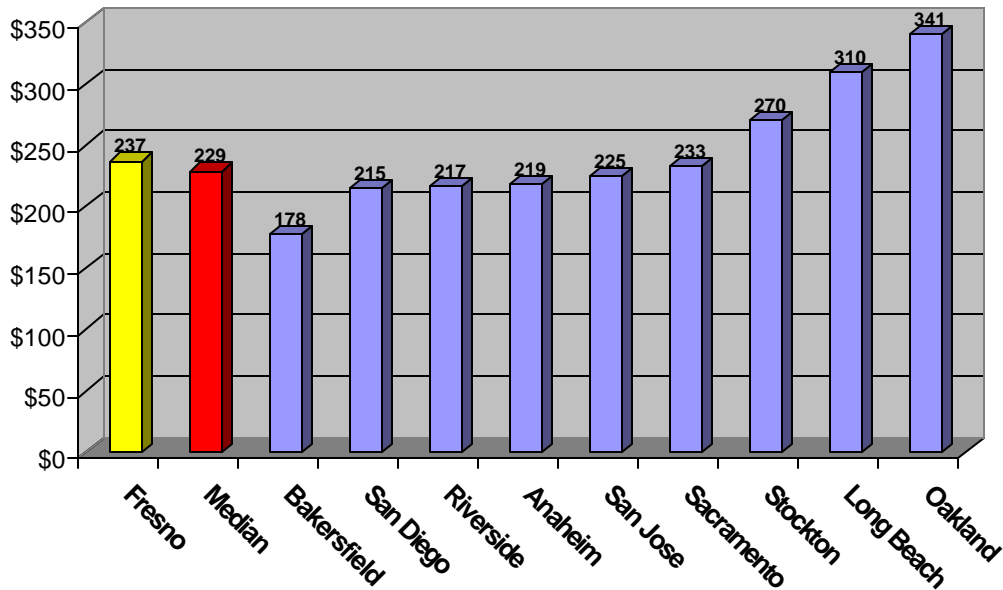


*(*The City of Fresno defines the City Clerk's responsibilities more narrowly than most of the peer cities.)*

MEETING THE CHALLENGE

The fact that **Police Department expenditures** are above the median of the benchmark cities (see Graph No. 4) is notable in part because this is a relatively recent occurrence. Despite Fresno's high crime rate (second highest in the Benchmark group), it is only in recent years that Fresno has made a significant commitment to putting more cops on the street. It is notable, also, because the Fresno Police Department now consumes a higher **percentage** (53.4%) **of the City's General Fund** than that of any of the other benchmark cities.

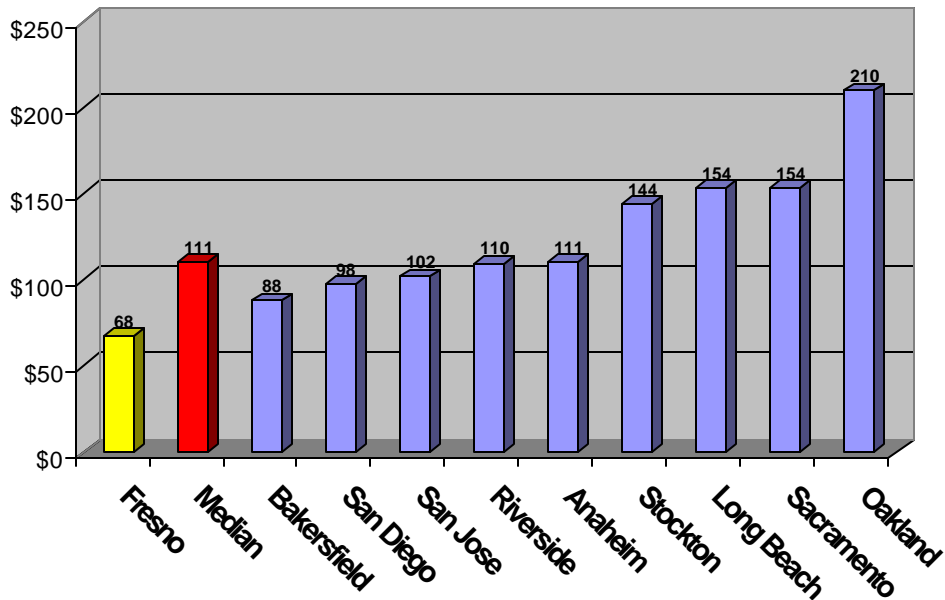
Police Expenditures per Capita (FY03 Budgets)
Graph No. 4



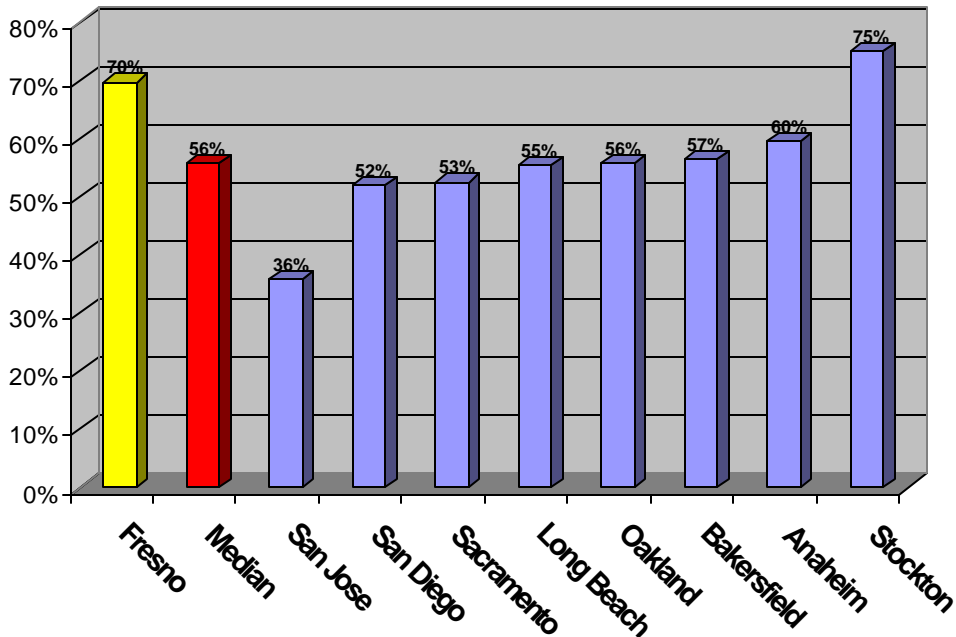
MEETING THE CHALLENGE

Fresno's city government has recently recognized the degree to which its Fire Department has been under-funded (see Graph No. 5). In FY 2003, the Fresno Fire Department received a higher budget increase over the prior year than any other department. The result of these increases in Police and Fire Department expenditures is that Public Safety now consumes 70% of the City's General Fund (see Graph No. 6), 25% more than the peer median. Recent Fresno trends in expenditures for **Public Safety** relative to **revenue trends**, if unmanaged, would cause the entire General Fund to be consumed by Public safety expenditures by the year 2008 (see Graph No. 7).

Fire Expenditures per Capita (FY03 Budgets)
Graph No. 5

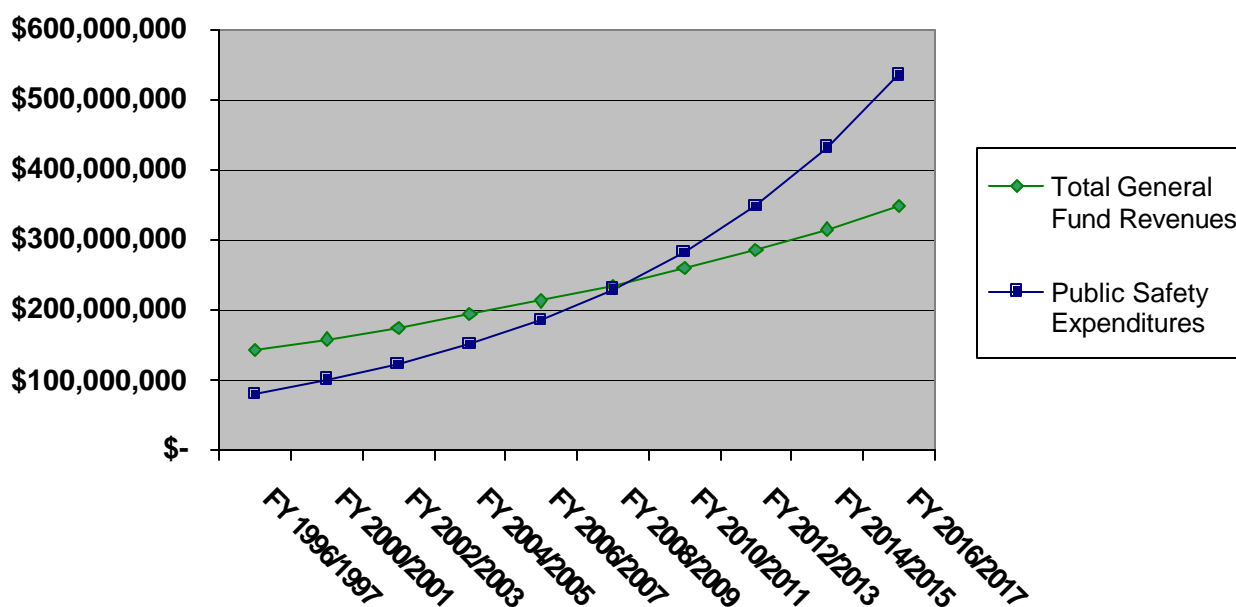


Police & Fire Expenditures as Percent of General Fund (FY03 Budgets)
Graph No. 6



MEETING THE CHALLENGE

General Fund Revenue & Expenditure Projections
Graph No. 7



4. Despite Fresno's lower expenditure levels, some additional operating efficiencies are attainable, particularly if best practices are adopted.

The Task Force expected to find more inefficiencies in City departments than it encountered. In fact, the statistical analysis does not support the stereotypical image of a bloated city bureaucracy, nor does the personal experience of the members of the Task Force. In the process of this analysis, the Task Force members had an opportunity to work with a wide cross-section of City employees, ranging from assistant city managers to administrative support personnel. Without exception, the Task Force found these employees to be competent and dedicated, willing to devote extraordinary time and effort in the performance of their jobs.

Nonetheless, the Task Force believes there is an opportunity to reduce General Fund expenses by 2% to 2-1/2% through across-the-board expense cuts, without adversely affecting essential services. This will not be easy. Cuts of this magnitude are commonplace in the private sector, where managers can make decisions to cut product lines and services with marginal profitability. For the most part, City governments do not have this discretion. They cannot decide not to offer police services in sections of the City because their crime is too high, or to discontinue trash pick-up in certain areas because they are too far from the dump. When these essential service areas are taken off the table for expense reductions, the economic space available for making spending cuts is generally ten to twenty percent of the departments' budgets, sometimes even less, so a 2% to 2-1/2% cut turns out to be ten to twenty-five percent of the departments discretionary budget.

As difficult and painful as it may be, circumstances demand that these cuts be made. The level of the proposed cuts is based in part on a review of budgets, recent spending trends, and the Contingency Plans developed by the City departments. It is also based on the experience of the Task Force members. Any organization that has not been pressed to make painful efficiency improvements in recent years has an opportunity to cut expenses by 2% to 3% through more diligent management of discretionary expenses, negotiation with vendors, etc., without impairing service.

Across the board expense cuts are attainable not only in those departments that reside within the General Fund, but also in the Internal Service Funds and the Enterprise Funds. Although the latter are self-standing operations, efficiencies in those organizations help minimize rate increases (e.g.,

public utilities) and/or make available funds to promote increased use of facilities (e.g., the Fresno Airport and the Convention Center).

The Task Force believes there are significant additional opportunities for efficiency improvements through adoption of *Best Practices*, and feels that all such practices should be adopted that result in service enhancement or cost reduction for the benefit of Fresno's citizens. This includes increased use of volunteers, outsourcing, managed competition, regional joint power authorities and many others described in this report.

5. A \$7.5-8.5 million (annualized) Contingency Plan can be implemented without affecting negotiated salaries or impairing essential services. Beyond that, other steps will be required.

The Task Force believes that resolution of the State-level budget crisis may result in a reduction of motor vehicle license fees for cities. Fresno's General Fund currently receives approximately \$17 million from these fees. If 50% of these fees are taken by the State, the Task Force believes that a combination of across-the-board cuts and some new revenues will be enough to offset the impact.

A net expense reduction of 2% to 2-1/2% will generate \$3.5 to \$4.0 million in expense reductions for the General Fund. Additional expense cuts through adoption of best practices cannot be counted on in the near term because these best practices take time to implement. The City has identified \$4.0 to \$5.0 million that can be generated through fee revenues that are commonly collected in the benchmark cities, out of a Universe of more than \$14.0 million of current services eligible for additional fees. (See the "Maximus Study", 12/3/02).

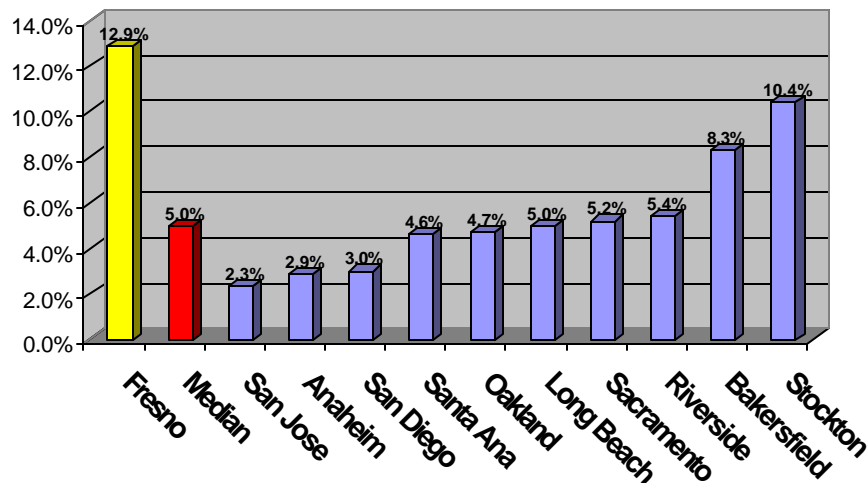
If the impact from State Government and a continued weak economy impact the City by more than \$8.5 million, more severe actions will be required, as discussed in the recommendations section.

6. Fresno has the most severe structural unemployment among its peers – and spends less on economic development than virtually all its peers.

Fresno's **unemployment rate** has stubbornly remained in the 12-13% range for the last several years, more than twice the 5% median of the benchmark cities (see Graph No. 8). The problem is structural. The high level of "unemployables" in Fresno – people without the minimal requisite education and workforce skills – dissuades potential employers from coming to Fresno. Lack of employment opportunities result in a **high crime rate** that further dissuades potential employers and requires a disproportionate and increasing percentage of the City's General Fund to go to police services.

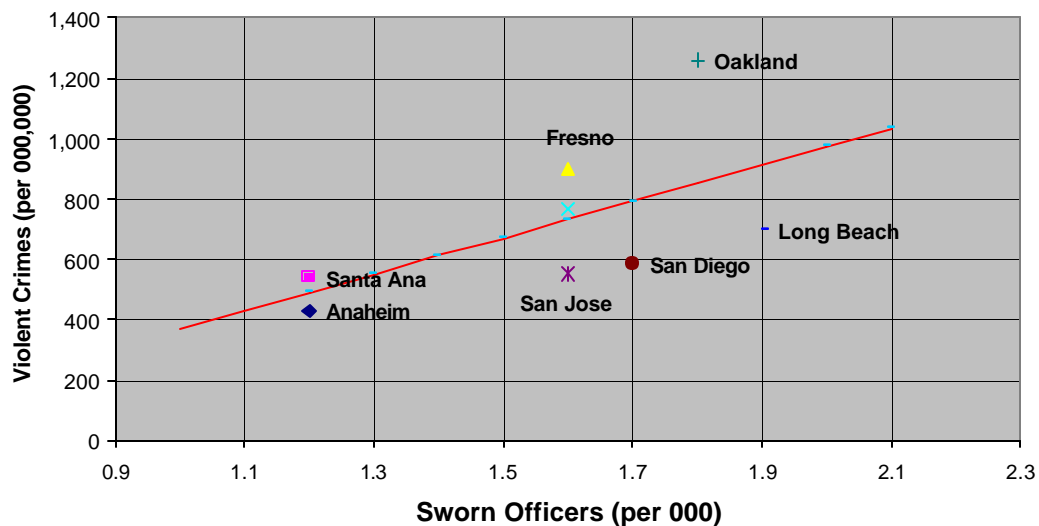
MEETING THE CHALLENGE

Percent Unemployment (2000 Census)
Graph No. 8



The problem is graphically illustrated in graphs No. 9 and No. 10. Graph No. 9 correlates violent crime with sworn police officers per 1,000 inhabitants. It is unreasonable, of course, to conclude that the incidence of violent crime increases as the number of police officers is increased. It is the reverse that is true. The more violent crime a City has, the more police officers it needs. Graph No. 10 correlates violent crime to the unemployment rate, showing that the incidence of violent crime is proportional to the unemployment rate. As important as it is to hire more police officers when a City finds itself in a high crime situation, this is a solution that addresses the symptom and not the underlying cause of the high crime.

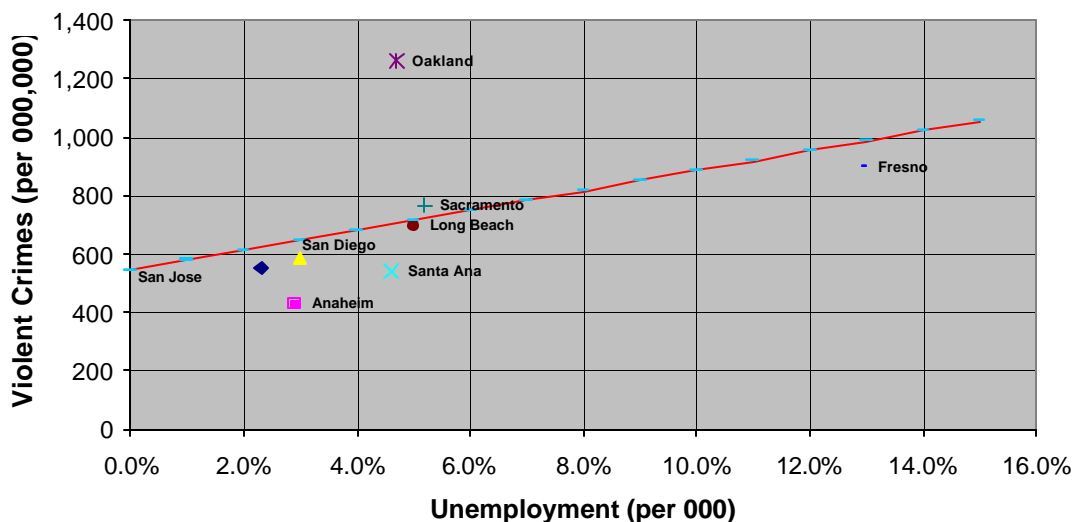
Police Department Comparisons
Graph No. 9



Source: U.S. Department of Justice 2000 Report

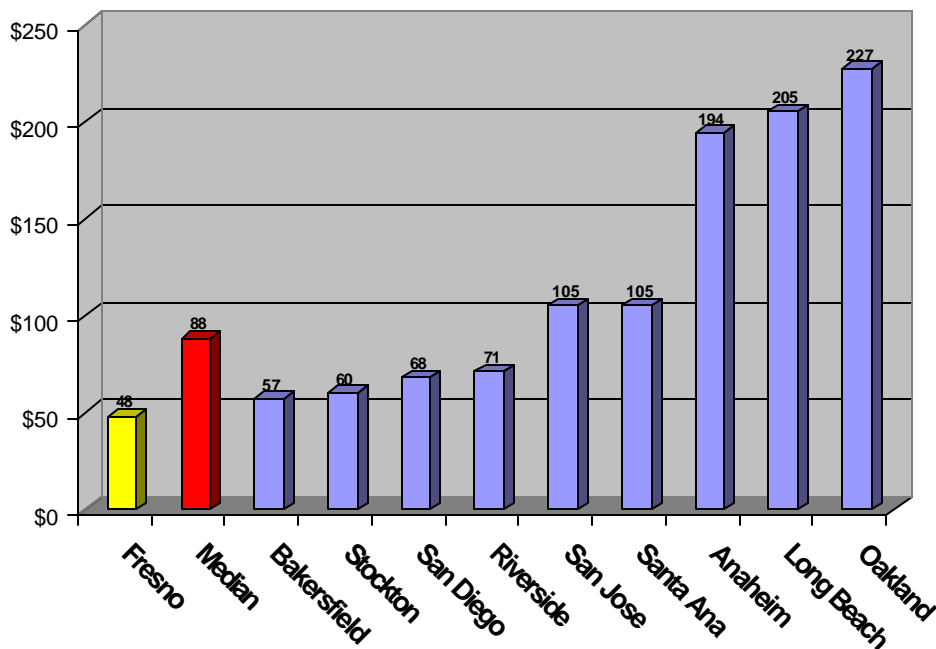
MEETING THE CHALLENGE

Police Department Comparisons
Graph No. 10



Source: U.S. Department of Justice 2000 Report & Census 2000

Economic Development \$ per Capita (1999 State Report)
Graph No. 11



If this downward spiral is to be broken, the City must make a concerted effort to invest in education and training, build infrastructure that will attract employers to the area, and place considerably greater emphasis on public-private partnerships. By all reports, Fresno spends less per capita on economic development than all of its peer cities, even when Redevelopment Agency efforts are included. Using 1999 data, Fresno spent 32% less than the median of its peers, and only about one-fourth as much as cities known for their aggressive *economic development* programs (see Graph No. 11). This level of expenditure would appear inadequate to reverse the persistent unemployment rate in Fresno.

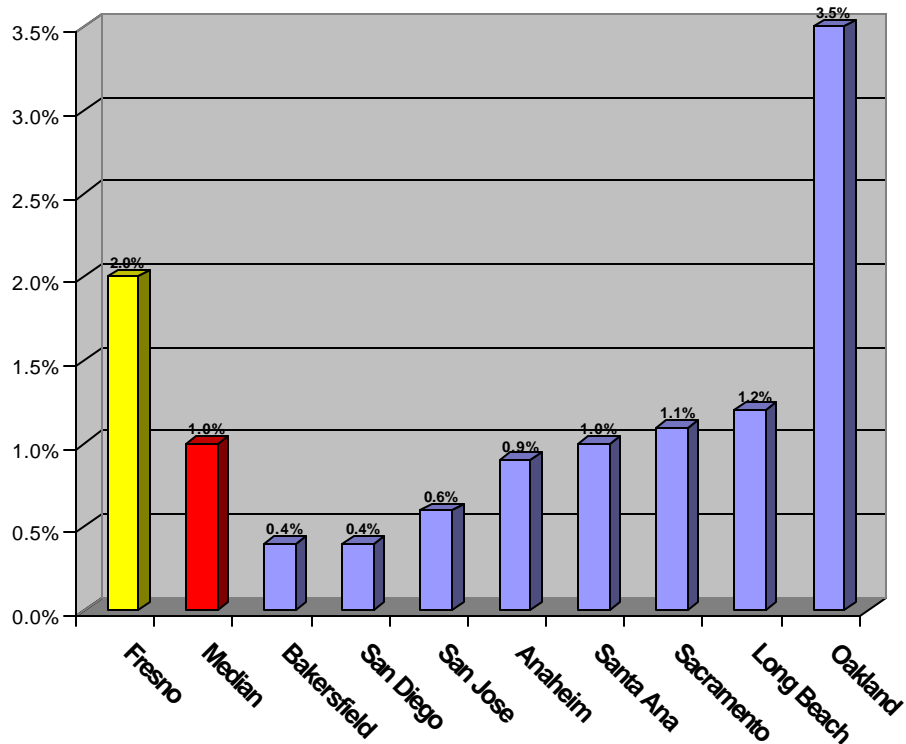
7. Fresno has deferred maintenance issues and significant pockets of under investment.

The Task Force has identified a number of functional areas that require significant investment. A few examples follow. Fresno's Fire Stations are in poor condition and Fresno's fleet of fire trucks needs updating. Failure to address these and other issues in the Fire Department could result in higher future insurance rates for the citizens of Fresno. The City spends 47% less per street mile on repairs than the benchmark median, suggesting very high efficiency and/or deferred maintenance (a more detailed review shows it is some of both). Fresno also lags in moving its information systems towards eBusiness, which will inevitably require significant expenditures.

8. Fresno has less Debt Capacity than its Peers.

The City of Fresno is more indebted than its peers. This is largely a result of the City having had to use debt to finance historical pension obligations that were unfunded in the periods when they were incurred. Prior to the successful recent re-financing of Fresno's Pension Obligation Bond, Fresno's net direct debt per capita was 40% higher than the median of its peers and its debt as a percent of assessed valuation was twice the level of its peers. Even after the recent re-financing, Fresno's net direct debt remains higher than its peers. Although Fresno's credit rating is not at risk, past usage of debt now requires that debt should be used sparingly to finance Fresno's future needs. See Graph No. 12.

FY01 Debt as Percent of Assessed Valuation (Moody's 2002)
Graph No. 12



9. Correction of the issues identified in paragraphs (6) and (7) above will require freeing up operating revenues through best practices and generation of new revenues.

Recent initiatives by the Mayor and City Council to revitalize the downtown area, obtain empowerment zone designation and focus attention on education, training and workforce development, to name a few, are all on the right track, but they are insufficiently funded to break the negative spiral described above. Because Fresno has to spend so much of its General Fund on police services, it does not have adequate funding to attack the conditions that are the primary source of the City's high crime rate.

Ideally, the best way for Fresno to generate the revenues needed to address its needs is to join with other local governments to persuade the State government to share more revenues with local governments. An increase of the share of the State sales tax going to local government from 1% to 1-1/2% would result in a \$27.5 million increase in Fresno's General Fund (16%). However, given the State fiscal deficits being projected for the next several years, the Task Force is not optimistic that this outcome is possible, so alternative ways need to be found to generate the revenues needed by the City.

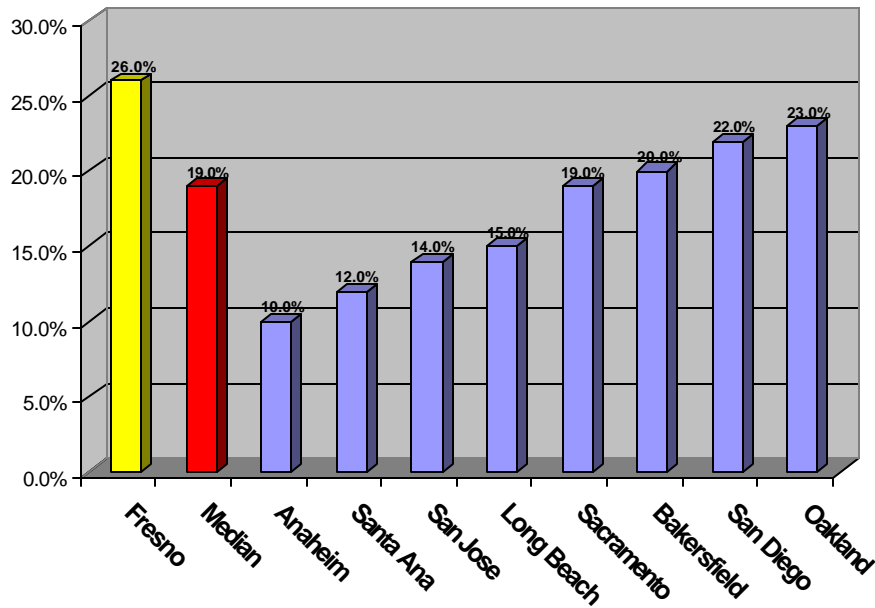
As discussed above, some near-term efficiency spending cuts can be made, but the proceeds will likely be used to offset revenue reductions from the State. Additional opportunities to free up revenues are available through implementation of *Best Practices* identified in this report. While some of these *Best Practices* may take time to properly evaluate and implement, aggressive pursuit of them is indispensable to Fresno's future. *Best practices* alone, however, will not release all the required funding. In the absence of a major and unlikely change in State/City revenue sharing practices, it will be necessary for Fresno to find new sources of revenue.

10. Fresno has a less diversified revenue base than its peers.

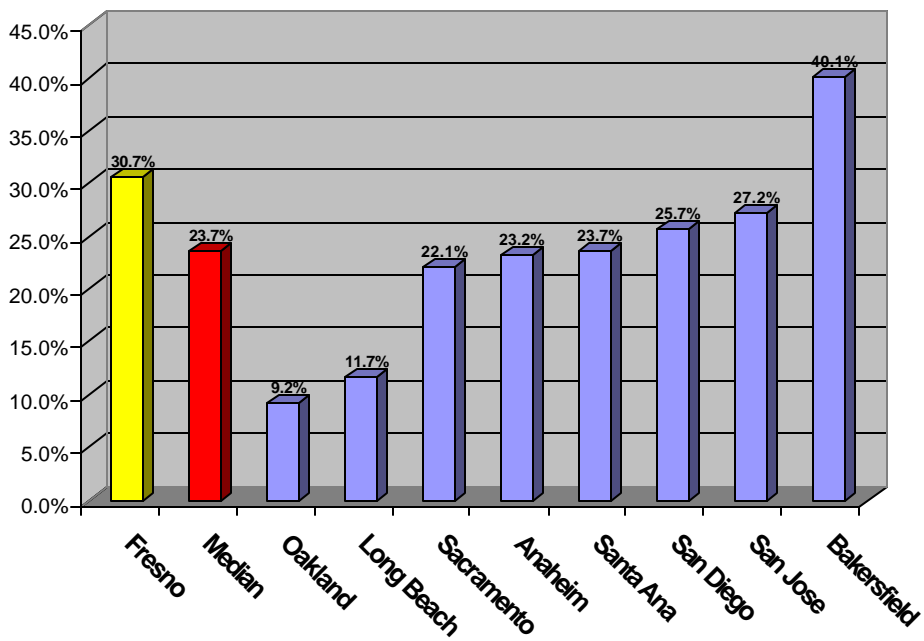
Fresno's General Fund is primarily dependent on three revenue sources, as illustrated in graphs No. 13, No. 14, and No. 15. The City relies more on **property taxes** than any of its peer cities; it relies more on **sales taxes** than any of its peer cities, except for Bakersfield; and it relies more on **business taxes** than any of its peer cities, except for Oakland. Fresno collects less revenue from fees, licenses and permits than any of its peers. (See Graph No. 16.) Also, Fresno does not collect a utility tax, as do more than 150 California cities, collectively representing a majority of the state's population. For those cities that collect them, utility taxes provide an average of 15 percent of general revenues, and often as much as 22 percent. Fresno also does not collect revenues through assessment districts, a practice used in most of the peer cities.

MEETING THE CHALLENGE

% of General Fund Revenue from Property Tax (City of San Diego Study)
Graph No. 13

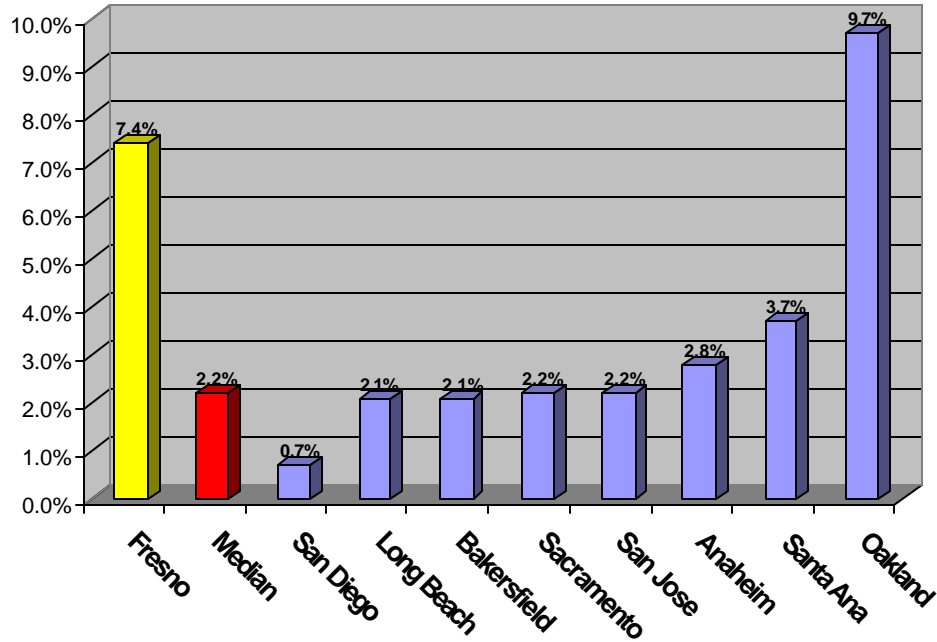


% of General Fund Revenue from Sales Tax (City of San Diego Study)
Graph No. 14

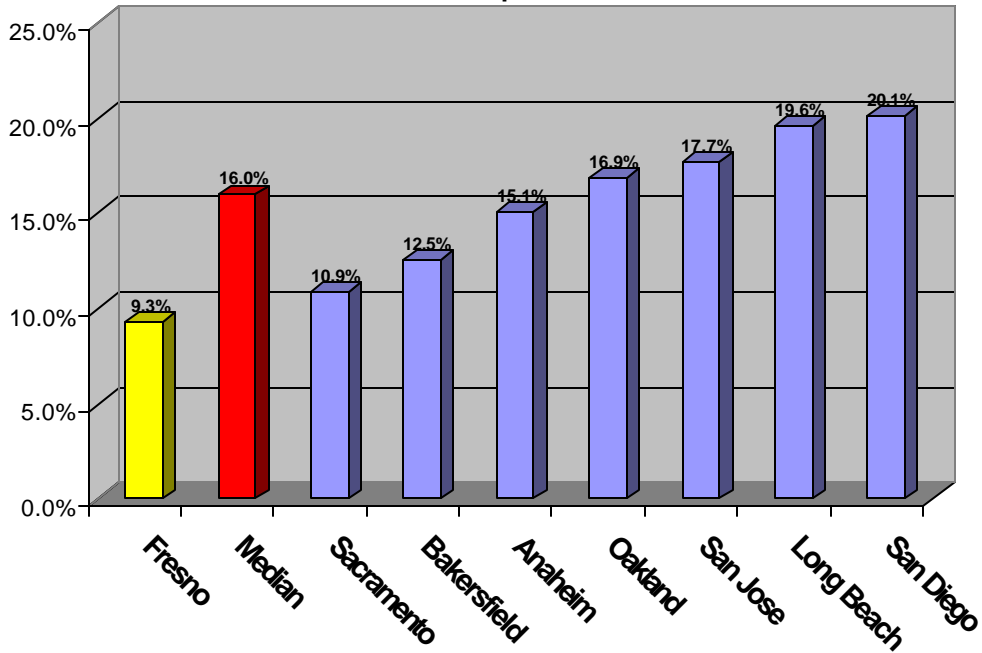


MEETING THE CHALLENGE

% of General Fund Revenue from Business Tax (City of San Diego Study)
Graph No. 15



% of General Fund Revenue from Fees, Licenses, Permits (FY01 CAFRs)
Graph No. 16



RECOMMENDATIONS

The *Recommendations* section of this report contains twenty-three recommendations. They are grouped into three major categories: **Contingency Plan** (what the Task Force often refers to as *Survival*), **Operating Efficiencies**, and **Investment**. All three categories contain recommendations that are vital to the future of Fresno. The following recommendations are the ones that the Task Force considers most important:

Contingency Plan

It is impossible to predict with certainty the extent to which the City of Fresno will be financially impacted by circumstances outside its control. Negotiations regarding the solution to the State's deficit are likely to continue at least until mid-year, 2003. At the federal level, the possibility of having to finance a war in IRAQ contributes a significant element of uncertainty. Nevertheless, Fresno must anticipate and be prepared to survive and move forward in whatever economic environment takes shape. The Task Force recommends that the City approach this uncertainty with contingency plans at three levels, as described below.

Readers of this report should take note that contingency plans, by definition, involve actions that must be taken on short notice. These plans do not contemplate generation of savings from Best Practices, which may take considerable time to implement, nor generation of new revenues that might require voter approval.

Level 1 Plan: \$7.5-\$8.5 Million plan

This plan assumes that the financial impact to the City from State budget-balancing actions and a continued weak economy, does not exceed \$8.5 million (5% of the General Fund). Plan implementation is predicated on the City taking two actions, neither of which would impact services or affect currently negotiated salaries:

1. Implement the Fee Revenue actions recommended in the Maximus Study.

The proposed fees, which are commonly collected in the benchmark cities (see Graph No.16), will raise \$4 to \$5 million (annualized) in incremental fees for Fresno and help diversify the City's revenue base. Even after these additional fees, Fresno's fee revenue will remain well below the peer median.

2. Implement a 2-1/2% across-the-board expense cut for all General Fund departments and Internal Service Funds, without impacting essential services.

An across-the-board reduction of 2-1/2 % will provide an additional \$3.5 to \$4.0 million to the General Fund. This can and should be done without adverse impact to essential services.

Level 2 Plan: \$8.5-\$20 Million Plan

This plan assumes a financial impact to the City in the range of \$8.5 to \$20 million (5% to 12% of the General Fund). Implementation of this plan is predicated on freezing salaries and re-negotiating existing salary contracts in order to protect essential services and jobs.

Level 3 Plan: More than \$20 Million

This plan assumes a worst-case scenario, with an economic impact to the City of more than \$20 million. The City would first use at least a portion of its \$10 million reserve to protect essential services and jobs. In the absolute worst case, some curtailment of essential services may be required.

Operating Efficiencies

The Task Force believes that the following recommendations on operating efficiencies should be implemented for the following three reasons: (a) City government has an obligation to its citizens to make government as efficient as possible; (b) even if a contingency plan is not required, the fragile U.S. and California economies may result in lower than anticipated City revenues; and (c) every effort must be made to free up revenues to address the City's economic development needs as well as the pockets of under-investment referred to above.

3. Implement a 2-1/2% across-the-board expense reduction even if implementation of a contingency plan is not required.

A 2-1/2% across-the board expense reduction in the General Fund and Internal Service Funds will generate \$3.5 to \$4.0 million in General Revenue Funds. In the highly unlikely event that these expense reductions are not used to offset reduced revenues, the savings can be used to invest in City priorities, as described below. These expense reductions must be implemented across all departments, including the Police and Fire Departments, which together represent 70% of the General Fund, and it must be done without adverse impact to essential services. It is recommended that these expense reductions be implemented as of February 1, 2003.

The Task Force recommends that the proposed 2-1/2% across-the-board expense reduction also be applied to the Enterprise Funds. Although these are self-sustaining Funds, efficiencies are important because they free up revenues that can be used to promote increased usage of City facilities and/or prevent the need to raise rates for City services.

While this recommendation may appear to be at odds with the finding that some departments are underfunded, it is important that belt-tightening occur in all departments before consideration is given to future investment requirements.

4. Cap all Department Expense Budgets for FY 2004 at the same level as the amounts budgeted for FY 2003.

This recommendation will ensure that the cost savings achieved through recommendation # 3 carry over into FY 2004. Deviations from this policy should require the approval of the Mayor and the City Manager, and subsequently be affirmed by the City Council.

5. In addition to the expense reductions under Recommendation # 3, evaluate cost-saving opportunities identified in the Department Contingency Plans that involve eliminating or changing the means of delivery of certain services.

Some Departments and Funds did an excellent job of identifying "out-of-the-box" ideas for cost reduction. Most of these ideas involved changing the means of delivery of services rather than eliminating the service. For example, the Transit Department (FAX) believes that privatization of the FAX fixed-route and Handy-Ride service could save the City \$1.2 million in salaries and provide better service to customers (a regional Joint Powers Transit Authority may generate even larger savings, while generating significantly lower pollution). The City Parks and Recreation Department believes that over \$200,000 could be saved if Parks and Recreation employees were to perform the work currently contracted to a third party. Another example is the Police Department, which suggested a \$600,000 savings from elimination of the Mounted Police unit, which serves more of a public relations than a public safety function (an alternative might be to make the Mounted Police unit a volunteer organization).

6. Establish a standing “Best Practices Task Force” charged with exploring and monitoring implementation of all Best Practices that offer service enhancements or cost reduction opportunities for the benefit of Fresno’s citizens.

This report identifies several “Best Practices” opportunities that offer the potential for millions of dollars in savings for Fresno, and improvement of service quality. The Task Force recommends that all such opportunities, and any others that may be identified, be aggressively explored, and implemented if analysis shows that they will result in benefit to the Citizens of Fresno. To implement this process, the Task Force recommends appointment of a standing “Best Practices Task Force”, whose role would be to create a “best practices culture” within city government. They would be charged with promoting the adoption of best practices in all aspects of City government and encouraging City Departments to implement and seek recognition from the U.S. Conference of Mayors for their best practices. The Best Practices Task Force should meet regularly with the Mayor and City Manager to report progress, and to renew its mandate. It should also meet regularly with the City Council’s Fiscal Forecasting Task Force to report progress and solicit their views.

Investment Plan

The Task Force believes that a multi-year investment plan must be developed to address the City’s structural unemployment, to revitalize the City’s downtown area, to restore certain City facilities and equipment to appropriate standards, and to invest in productivity-related technology.

7. The Mayor should lead the development of a comprehensive metropolitan strategy to create 25,000 - 30,000 net new jobs in five years.

The need to reduce Fresno’s unemployment has major social and economic implications. The social implications require no elaboration. Economically, the implication of success is the creation of a larger tax base that will enable the City to continue to service the needs of its citizens, while the implication of failure is the requirement for more and more police services and the squeezing of all other General Fund services delivered by the City. Although City government and several other stakeholders in the community are pursuing initiatives to help address this issue, it is the perception of the Task Force that the overall effort is fragmented, disjointed and under scale. A more effective approach is required. Successful economic development efforts in cities such as Austin, Texas, Cleveland, Ohio, and San Diego, California, have been characterized by (a) **bold objectives**; (b) **well defined strategic focus**; and, (c) **wide-ranging metropolitan cooperation**. For Fresno County to reduce its unemployment to the median level of its peers will require the creation of at least 25,000 net new jobs in the next five years, in contrast to the current situation where we have lost net jobs over the prior year in spite of economic development efforts.

To provide the sense of urgency that is required, the Task Force proposes that a Metropolitan **Jobs Task Force** be established to develop a comprehensive Jobs Strategy, and that a **Jobs Summit** be scheduled approximately six months from the issuance of this report. A draft strategy would be unveiled at the Summit and fine-tuned during the course of the Summit. All institutions and key leaders who have economic development, job creation and/or job training responsibilities would be invited to participate. The success of the proposed summit will be dependent on **marshalling all stakeholders behind a single plan** and the assignment of **clear responsibility and accountability for achievement of the plan** following the conclusion of the summit.

8. The Mayor and City Council should seek consensus on a multi-year plan for allocation of the City’s resources.

Currently and historically, allocation of the City’s resources has taken place as part of the annual budget process. This approach tends to cause City Government to focus on the short-term. While both the Mayor and City Council have long-term objectives for the City, these objectives all too often fall victim to the political pragmatics of getting the annual budget passed. While the symptoms of a city’s problems can be treated through annual appropriations, treatment of the underlying problems generally requires a longer-term commitment. The current approach has resulted in an ever-

increasing use of the General Fund for public safety expenditures, while treatment of the underlying unemployment problem has suffered from lack of resources.

9. Any new revenues required to implement the City's investment plan should be from sources that help diversify the City's revenue Base.

It is unlikely that the cost efficiencies proposed in this report will free up sufficient new capital to enable the city to launch an adequately funded investment plan. Debt should be used sparingly in a City that already carries twice as much debt per capita as its peers. New sources of revenue are, therefore, likely to be required. Fresno could generate an additional \$120 per capita in revenues – more than \$50 million Citywide – and still be below the median of its peers. Even if one were to normalize for Fresno's lower per capita income, the City could raise \$50 per capita – \$20 million citywide – in new revenues and still be below the median of its peers on an adjusted basis.

The Task Force believes that the best way best way to generate more revenue is through economic growth, but Fresno's opportunities for sound growth are currently constrained by the underlying problems discussed above. Correction of these problems will require some up-front investment. The amount of that investment cannot be determined until a Jobs Strategy has been fully developed and costed and the City's deferred maintenance problems are more fully understood and costed. To the extent that the required investment exceeds the revenues available through the efficiency improvements recommended in this report, which the Task Force believes is likely, new revenues will need to be generated. The Task Force feels any such new revenues should (a) principally be raised by broadening the revenue base via a Utility User Tax, special assessment districts, or some combination of the foregoing; and (b) earmarked for the specifically intended investment objectives.

General

10. The contents of this report should be effectively communicated to the Citizens of Fresno.

Some of the findings of this report were surprising to the Task Force; among them, the extent to which Fresno's revenues and expenditures fall below those of its California peers and the degree to which public safety expenditures are squeezing the City's ability to provide other services and solve its underlying problems. If a consensus is to be formed in support of the recommendations offered in this report, the Citizens of Fresno must be made fully aware of these findings.

Concluding Observations

The Task Force has made no attempt to sugarcoat the significant challenge confronting our State and our City. We are facing a storm of significant proportions. If we knew this to be a storm of limited duration, we might have the choice of hunkering down to survive it. However, the Task Force believes this is a storm of significant duration, leaving us no better choice than to brave the elements and continue to move forward. The Task Force has made its recommendations with full confidence that Fresno has the leadership and political will not just to survive this storm, but to emerge from it stronger and better positioned for a brighter future.

GLOSSARY OF TERMS

Beginning Balance — The amount of money the City anticipated to have on July 1, 2004, to begin fiscal year 2004-2005.

Behavior — The actions of individuals determined by habits, attitudes, beliefs, and expectations.

Capital Budget — Major Capital Improvement projects, including the construction of new streets, sewer lines, fire stations, or the development of a new park. These are one-time expenditures.

Capital Projects — Funds that are used for Major Capital Improvement Projects (see Capital Budget).

Charges for Services — Monies the City receives as payment for services provided such as water, sewer, solid waste, and building permits.

Enterprise Funds — Funds generated from user charges that support City services for which they were collected such as water, sewer, and solid waste that are operated like a private business.

Federal, State, Fresno County — Monies the City expects to receive from these government entities.

Full Time Equivalent (FTE) — The portion of the year that a position is authorized. For example, a position authorized from July 1 through June 30 would equal 1.0 full-time equivalent or one position for the entire fiscal year.

FY 2002 and FY 2003 Actual — The actual revenues received and expenses incurred for those fiscal year ending June 30.

FY 2004 Amended — The City Budget for fiscal year ending June 30, 2004 is adopted by resolution by the City Council. Adjustments in the amounts appropriated at the department/fund level are made throughout the fiscal year upon a motion to amend the resolution and affirmative votes of at least five Council members. Budgeted amounts are reported as amended on June 30, 2004.

FY 2005 Adopted — The City Budget for the period July 1, 2004, through June 30, 2005.

General City Purpose — Operating expenses that are Citywide and/or interdepartmental in nature such as funds for the Pension Obligation Bonds, a General Fund contingency, and election expenses. These are budgeted in The General City Purpose Department

General Fund (GF) — Monies from local property and sales taxes, and other revenue sources, that pay for City services such as Police; Fire; Public Works; Elected Offices; City Manager; City Clerk; and Parks, Recreation, and Community Services.

General Fund--Support — The amount of General Fund monies needed to support a department beyond the amount of revenue generated by the department.

General Fund--Fees and Charges — Revenue generated by charging for services provided by a General Fund department such as park admissions, downtown mall maintenance, false alarm fees, and licenses and permits issued by a department.

General Fund--Intergovernmental — Revenue received from other governments in the form of grants, allocations, entitlements, and shared revenues which are not charges or costs of City services or loan repayments. These revenues may also be listed in the Department Summaries of this document as coming from the named government entity; i.e. CDBG, Clovis Unified School District, Landscape Maintenance District, Measure "C", etc.

General Fund--Intragovernmental — Revenue generated by services provided by a General Fund department to another City department. For example, the Police Department pays the Fleet Management Division for vehicle maintenance.

General Fund--Other — Miscellaneous revenue generated by a General Fund department including private donations, disposal of assets, sales of lost or unclaimed property, refunds, and credits or refunds for returned equipment.

General Government — The administrative departments of the City including the Mayor's office, the City Council, the City Manager's office, the City Clerk's office, and the General City Purpose Department.

General Use Budget — The total amount the City spends at its discretion for services.

Goals — Identification of what the City wishes to accomplish, and by when, for a particular Key Result Area (KRA).

Interfund Transfer and Interdepartmental (ID) Charges — Interfund transfers are monies that are transferred from one fund to another fund as an accounting procedure. Interdepartmental charges are costs for services one City department provides another City department (see Intragovernmental Fund). These procedures result in a double counting of the same dollar which is budgeted in two places. By subtracting transfer and charge amounts, a dollar is then only counted once.

Intragovernmental Funds (Internal Service Fund) — Funds for City services performed by one City department for another City department, such as City vehicle maintenance.

Key Result Area (KRA) — One of twelve keys areas of importance to the City.

Local Taxes — Monies the City receives from taxes levied and/or collected locally, including property taxes and sales taxes.

Mission — Fresno - a united city working together to ensure equal access to opportunity, education, and quality of life for every man, woman, and child regardless of their race, religion, age, or socio-economic status.

Operating Budget — City services and activities conducted yearly such as Police and Fire protection and solid waste collection.

Other Revenue — Monies not included in the above categories, including interest, private donations, and the sale of assets and other miscellaneous revenue.

Overall Vision / Values — Fresno - a culture of excellence where people get the best every day.

Resources — The total amount of money the City expects during the year to pay for services and capital projects.

Special Assessments — Funds generated through the formation of an assessment district to provide public improvements such as street construction and flood control.

Special Revenue — Funds from General Revenue Sharing, Community Development Block Grant, Gas Tax, and other federal and state funds granted for specific community programs such as pedestrian and bicycle facilities, parks development, and housing development and rehabilitation.

Strategies — The actions required to accomplish a goal.

Tactics — The activities necessary to accomplish a strategy.

Trust and Agency — Funds that are held in trust by the City and whose use is restricted to the specific purpose for which the funds were received such as Urban Growth Management (UGM) area capital improvement, Woodward Park Legacy, and Conference Center Debt Service.

Urban Growth Management (UGM) — Fees paid by developers to cover the cost of City infrastructure required to support development.